COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2003

Commonwealth of Pennsylvania
Edward G. Rendell
Governor

Prepared By:

Office of the Budget
Michael J. Masch, Secretary

Comptroller Operations
Harvey C. Eckert, Deputy Secretary

The Comprehensive Annual Financial Report of the Commonwealth of Pennsylvania (CAFR) is provided on the World Wide Web in Adobe Acrobat (.PDF) format for the convenience of distribution. For availability of a copy, please contact:

Harvey C. Eckert, Deputy Secretary for Comptroller Operations, Room 207, Finance Building, Harrisburg, Pennsylvania 17120

The CAFR contents can be accessed through this link: Table of Contents

Commonwealth of Pennsylvania
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2003

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COMMONWEALTH OF PENNSYLVANIA
GOVERNOR'S OFFICE
HARRISBURG

April 27, 2004

MICHAEL J. MASCH
SECRETARY
OFFICE OF THE BUDGET

To the Honorable Governor, Lieutenant Governor, Members of the General Assembly and Citizens of the Commonwealth of Pennsylvania:

We are pleased to present this Comprehensive Annual Financial Report (CAFR) of the Commonwealth of Pennsylvania as of and for the fiscal year ended June 30, 2003. The Office of the Budget, Comptroller Operations, prepared this report, which includes the Basic Financial Statements (BFS), pursuant to the power vested in the Governor under Section 701 of the Administrative Code and delegated to the Secretary of the Budget by Executive Order No. 1984-3, dated October 11, 1984.

The BFS were prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). We believe the financial statements are fairly stated in all material respects; that they are presented in a manner designed to fairly report the Commonwealth's financial position, results of operations, and changes in net assets/fund balances; and that all disclosures necessary to enable the Governor, the members of the General Assembly, the public, and the financial community to fully understand the Commonwealth's operations and financial affairs have been included. Responsibility for the completeness and fairness of the presentation, including all disclosures, rests with the Commonwealth of Pennsylvania, Office of the Budget.

Management's Discussion and Analysis (MD&A) precedes the June 30, 2003 BFS, provides an overview of the Commonwealth's financial position and activities, and helps readers to understand the government-wide statements. This section immediately follows the auditors' opinion. In addition to the MD&A and BFS, this CAFR includes: combining fund financial statements; supporting schedules; certain narrative information describing individual funds; and statistical tables presenting financial, economic, and demographic data about the Commonwealth.

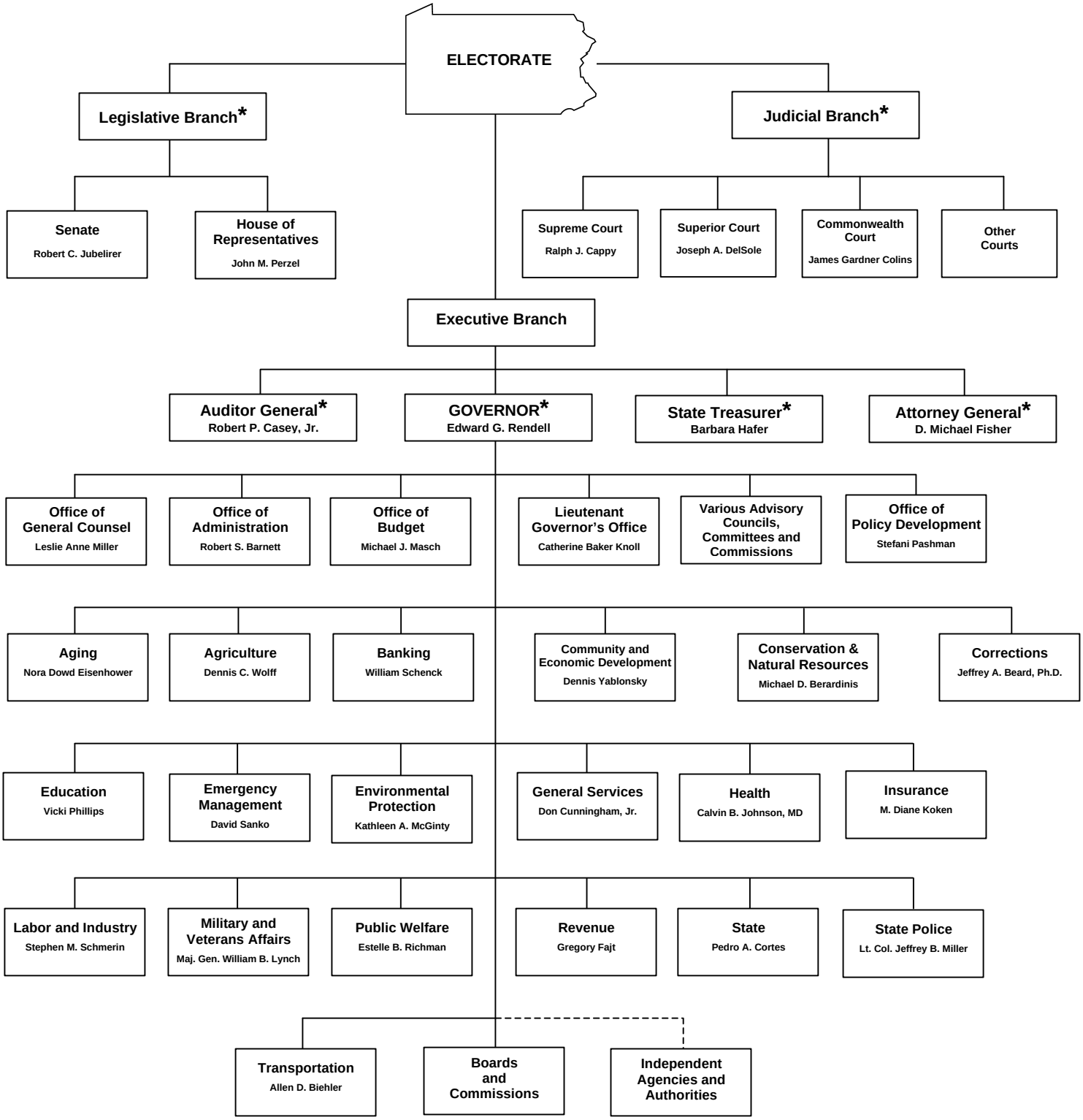
PROFILE OF THE GOVERNMENT

Pennsylvania holds one distinct characteristic from most other U.S. states, it is designated a "Commonwealth." This word, which is of English derivation, refers to the well-being of the populace. It lays a strong foundation for Pennsylvania's government system, which strives to better the lives of the almost 12.5 million people residing within the state's borders. As in other states, Pennsylvania's government consists of three branches which operate through a system of checks and balances. The legislative branch is composed of the Senate and the House of Representatives. The executive branch is comprised of the Governor, Auditor General, State Treasurer, and the Attorney General. The judicial branch consists of the Supreme Court, Superior Court, Commonwealth Court, and other Courts. The following organization charts identify specific Commonwealth officials and staff within Comptroller Operations, at June 30, 2003:

COMMONWEALTH OF PENNSYLVANIA

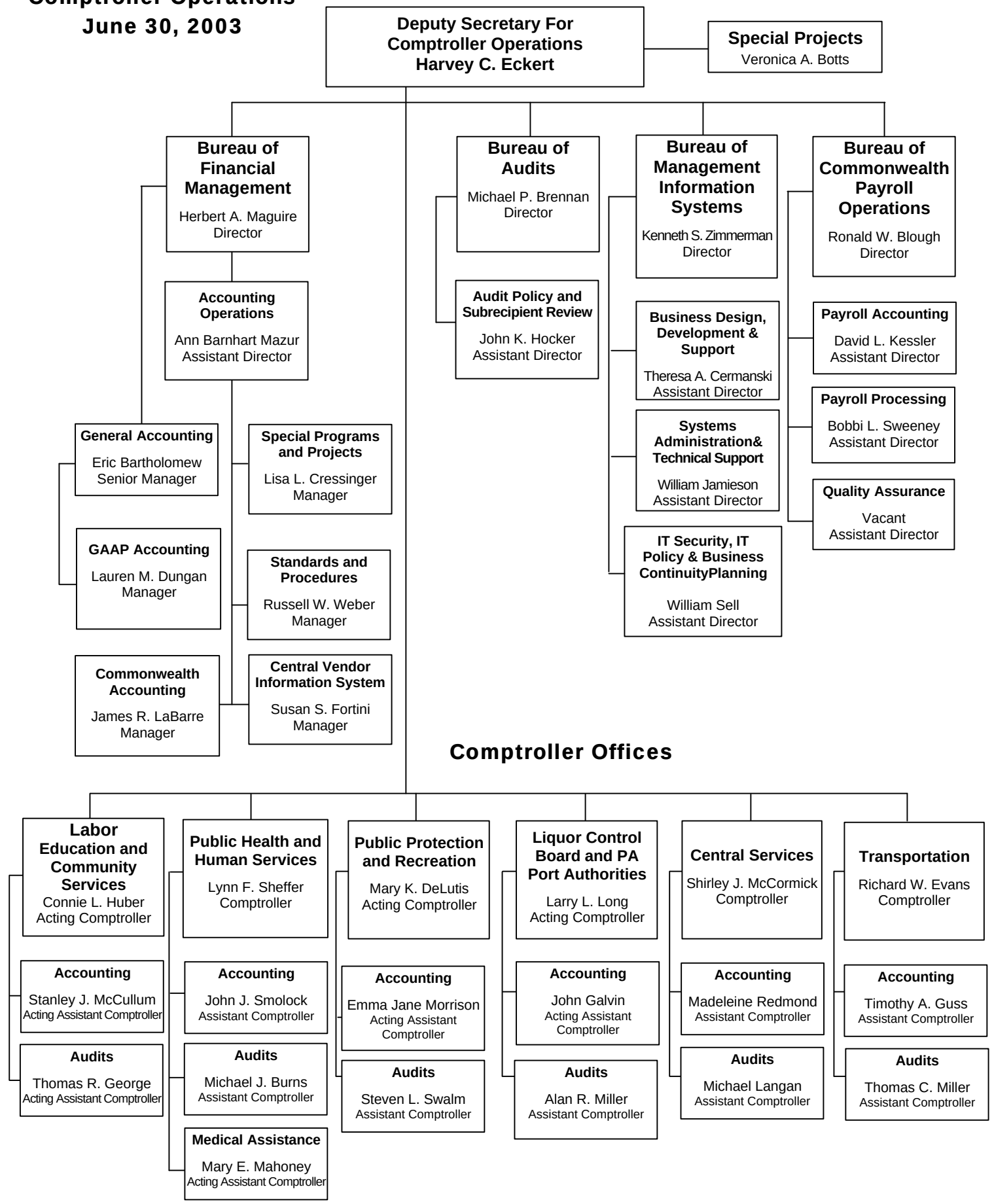
ORGANIZATION AND OFFICIALS CHART

June 30, 2003



* Independently Elected

Office of the Budget
Comptroller Operations
June 30, 2003



THE GENERAL FUND

The General Fund, the Commonwealth's largest operating fund, may be used to assess Pennsylvania's financial position and activities for the fiscal year ended June 30, 2003. It accounts for all revenues and other receipts that are not required by law to be accounted for or deposited in other special funds, and reflects a significant portion of Commonwealth expenditures. Tax revenues, principally personal and corporate income and sales and use taxes, constitute approximately 53.7 percent of the General Fund budgetary basis revenues. The functional assignments for General Fund expenditures are: direction and supportive services, protection of persons and property, health and human services, public education, recreation and cultural enrichment, economic development, transportation and transfers to debt service funds for all obligations except those incurred for highway or other special revenue fund purposes.

BUDGET ADOPTION AND LEGAL COMPLIANCE/BUDGETARY RESULTS

A discussion of the Commonwealth's annual budget process is included as Required Supplementary Information (RSI) following the notes to the financial statements. The adopted budget provides legal control over spending. Under Commonwealth law, expenditures cannot exceed amounts appropriated. Budgetary control is exercised by specific, line-item appropriation. The Budgetary Comparison Schedule, included as RSI, provides original budget, final budget and actual budgetary results for the fiscal year ended June 30, 2003.

During the fiscal year ended June 30, 2003, total General Fund revenues and other sources exceeded expenditures and other uses by $66.8 and, at June 30, 2003, the Commonwealth reported an unreserved/undesignated fund balance (budgetary basis) of $209.3 in the General Fund. This compares to a budgetary basis fund balance of $142.5 (restated) at June 30, 2002. The budgetary basis results for the fiscal year ended June 30, 2003 include revenue collections totaling $36,464 less appropriation authorizations totaling $36,479.3, plus other net financing sources totaling $82. Included in the $36,479.3 appropriation authorizations are $16.7 of state supplemental appropriations and $25.1 in Federal supplemental appropriations authorized during the fiscal year ended June 30, 2003 (amounts in millions).

FUND BALANCE INCREASE/(DECREASE) – FIVE MOST RECENT FISCAL YEARS

The following table shows the General Fund's year end unreserved/undesignated fund balance and increases or decreases on a budgetary basis at the end of the five most recent fiscal years (amounts in millions):

At June 30	Unreserved/ Undesignated Fund Balance	Increase (Decrease)
1999	$ 447.5	$ 182.2
2000	610.5	163.0
2001 (restated)	336.4	(274.1)
2002 (restated)	142.5	(193.9)
2003	209.3	66.8

CASH MANAGEMENT

The Treasury Department is required by the Commonwealth's Fiscal Code to deposit Commonwealth monies, excluding certain component unit monies, in state depositories approved by the Board of Finance and Revenue. Amounts deposited are not required to be segregated by fund. In addition, the Treasury Department is empowered to invest Commonwealth monies that are in excess of daily needs of the various Commonwealth Funds. At June 30, 2003, the Treasury Investment Program included the following types of investments:

	Percent
United States Treasury and Government Agency Obligations	26.90
Repurchase Agreements	26.61
Domestic Equities	15.89
Corporate Bonds and Notes	12.14
PHEAA HelpStart	5.43
Money Market Funds	5.79
Commercial Paper (Moody's Prime One Rating or Equivalent)	5.21
Certificates of Deposit	1.10
Other	.94
	100.00

The Treasury Investment Program totaled $7.5 billion at June 30, 2003. Because participating funds purchase pool shares of the Treasury Investment Program, they report share balances as temporary investments.

RISK MANAGEMENT

The Commonwealth maintains ongoing training and information programs to reduce risks associated with employee injury and negligence, contract compliance, tort liabilities and property losses. As more fully described in Note M to the financial statements, the Commonwealth became self-insured for employe disability and medical claims on July 1, 1983. The Commonwealth is also self-insured for annuitant medical/hospital benefits and tort liabilities, including automobile, employe and transportation-related claims. Reserves have been established to fund self-insured claims. Third-party coverage is obtained for property losses in excess of $1 million per occurrence, to a limit of $100 million per occurrence. Coverage for property losses less than $1 million or more than $100 million is maintained through the Commonwealth's self-insurance program.

INDEPENDENT AUDIT

The Commonwealth's June 30, 2003 BFS have been jointly audited by the Department of the Auditor General and Ernst & Young LLP, an independent public accounting firm. The independent auditors' opinion is included in the beginning of the Financial Section of this CAFR. The auditors' opinion provides a reasonable basis for users to rely on the information included in the BFS.

ECONOMIC OUTLOOK

Despite the declaration of the end of the recent economic recession as of the end of 2001, the US economy and the economy of Pennsylvania have continued to struggle to gain significant forward momentum. The first half of calendar year 2003 began on a subdued note with stagnant employment, flat factory activity, hard-pressed government finances and low income gains. Thus far in this economic recovery period, new jobs and higher income levels have been quite restrained.

In the second half of 2003 and on in to 2004 it is expected that the national economy will gain some momentum for higher economic growth and eventually lead to increased jobs and income in the nation and in Pennsylvania. This momentum may be slow to develop, causing continuing weak economic performance as demonstrated through statistics measuring job, income and tax revenue growth.

CERTIFICATE OF ACHIEVEMENT

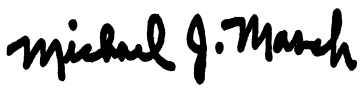
The CAFR will be submitted to the Government Finance Officers Association of the United States and Canada (GFOA) to determine its eligibility for the GFOA's Certificate of Achievement for Excellence in Financial Reporting. The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the Commonwealth of Pennsylvania for its Comprehensive Annual Financial Report as of and for the fiscal year ended June 30, 2002. This represents the seventeenth consecutive year the Commonwealth of Pennsylvania has received this award.

To merit a certificate of achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, which conforms to GFOA standards and satisfies both generally accepted accounting principles and applicable legal requirements. A certificate of achievement is valid for a period of one year only. We believe the Comprehensive Annual Financial Report of the Commonwealth of Pennsylvania as of and for the fiscal year ended June 30, 2003 conforms to the GFOA's award criteria.

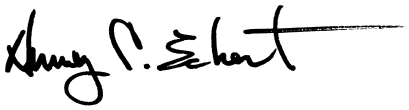
ACKNOWLEDGMENTS

We wish to express our appreciation to the staff of the various Commonwealth agencies whose time and dedicated effort made this report possible and, at the same time, to reaffirm our commitment to you to maintain the highest standards of accountability in financial reporting to the citizens of the Commonwealth.

Sincerely,



Michael J. Masch
Secretary
Office of the Budget



Harvey C. Eckert
Deputy Secretary for Comptroller Operations
Office of the Budget

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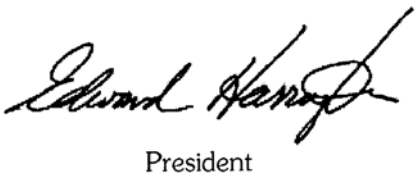
Certificate of Achievement for Excellence in Financial Reporting

Presented to

Commonwealth of Pennsylvania

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

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Financial Section

State Capitol

Harrisburg

Department of the Auditor General
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120-0018

ERNST & YOUNG LLP

Two Commerce Square
Suite 4000
2001 Market Street
Philadelphia, Pennsylvania 19103-7096

Report of Independent Auditors

The Honorable Edward G. Rendell, Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania

We have jointly audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Pennsylvania, as of and for the year ended June 30, 2003, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commonwealth's management. Our responsibility is to express opinions on these financial statements based on our audit.

We did not jointly audit the financial statements of certain component units, which represent 99 percent of total assets and 98 percent of total revenues of the aggregate discretely presented component units. We did not jointly audit 100 percent of the total assets and 100 percent of the total revenues of the Pension Trust Funds. This comprises 90% of total assets and 42% of total revenues of the aggregate remaining fund information. We also did not jointly audit the financial statements of two Enterprise Funds, which represent 1 percent of total assets and 1 percent of total revenues of the aggregate remaining fund information and 4 percent of total assets and 1 percent of total revenues of the business-type activities. The financial statements of these component units, the Pension Trust Funds and the Enterprise Funds were audited by other auditors, including Ernst & Young LLP acting separately, whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those component units, the Pension Trust Funds and Enterprise Funds, are based solely on the reports of the other auditors. Ernst & Young LLP has audited separately 21 percent of total assets and 21 percent of total operating revenues of the discretely presented component units.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the

amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Pennsylvania as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

Management's discussion and analysis and budgetary comparison information on pages 17 through 33 and 115 through 123 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth of Pennsylvania's basic financial statements. The combining non-major and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining non-major and individual fund financial statements have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Robert P. Casey, Jr.

Ernst & Young LLP

April 9, 2004

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Management's Discussion and Analysis

Independence Hall

Philadelphia

Overview and discussion of basic financial statements

The information included in Management's Discussion and Analysis (MD&A) supplements the basic financial statements (BFS), explains the BFS and discusses year-over-year changes in specific BFS content. The Commonwealth's June 30, 2003 BFS consist of its government-wide and fund financial statements and related note disclosures. MD&A is required supplementary information (RSI) and precedes the BFS. Other RSI is presented following the notes to the financial statements. Government-wide statements were first presented for the fiscal year ended June 30, 2002 and will be discussed first.

Government-wide financial statements

Government-wide financial statements portray the Commonwealth's overall financial position (Statement of Net Assets) at June 30, 2003 and its aggregate revenues and expenses (Statement of Activities) for the fiscal year ended June 30, 2003. The Statement of Net Assets includes an estimate of the total amount of receivables due at June 30, 2003 that is expected to be collected in the future, whereas governmental fund financial statements only include certain receivables collected within 60 days after the fiscal year end. Capital assets, such as highways, bridges, heavy equipment and buildings, are reported on the Statement of Net Assets with acquisition or construction costs being reported when the assets are placed in service. To recognize the cost of using up each capital asset, annual depreciation expense is reported over future fiscal years. Governmental fund financial statements, on the other hand, report the acquisition of capital assets as expenditures (for the entire cost of the asset) during the fiscal year the asset is acquired or constructed.

The Statement of Net Assets also includes all liabilities, regardless of when payment is due. Examples include bond principal payments which may not be due for several years and an employee disability claims liability, much of which will not be payable until future years. Likewise, employee compensated absence liabilities (such as vacation leave) are reported based on the predicted or actual cash value of leave balances at fiscal year-end. Governmental fund financial statements do not report general long-term liabilities, such as bond principal payments, employee disability claims or compensated absences.

On the Statement of Activities, both revenues and expenses are reported without considering when the related cash is received or disbursed. The reported change in net assets reveals whether the Commonwealth's overall financial position improved or deteriorated during the fiscal year. Government-wide statements do not report fund-specific information; rather, they include aggregated information that has been adjusted for specific eliminations and reclassifications. The Statement of Activities presents net program revenues/expenses by functional area as well as the total cost for providing services during the fiscal year ended June 30, 2003. These statements are on an enterprise-wide basis and classify financial activities as either governmental or business-type. Governmental activities include those traditionally provided by practically all states: public, cash, medical and other assistance; public education; correction and rehabilitation; public works projects; issuing and retiring general obligation debt; etc. Business-type activities include activities where individuals and organizations provide resources to the government in exchange for a product or service. Typical examples would be customers paying for wine or liquor, parents or others purchasing tuition credits for school-age children or lottery players purchasing game tickets. In government-wide statements, for both governmental and business-type activities, the economic resources measurement focus and accrual basis of accounting are used, meaning revenues and expenses are recognized when they occur, not when cash is received or paid.

Condensed financial statement information – government-wide financial statements

The following condensed financial statement information is derived from the Commonwealth's government-wide June 30, 2003 and 2002 financial statements and includes amounts for the primary government only. The government-wide statements include information for component units, which are organizations that are legally separate from the Commonwealth's primary government. Information related to component units is not included in MD&A. Each component unit is identified and described in Note A to the financial statements. Audited financial statements for component units are available through the Deputy Secretary for Comptroller Operations.

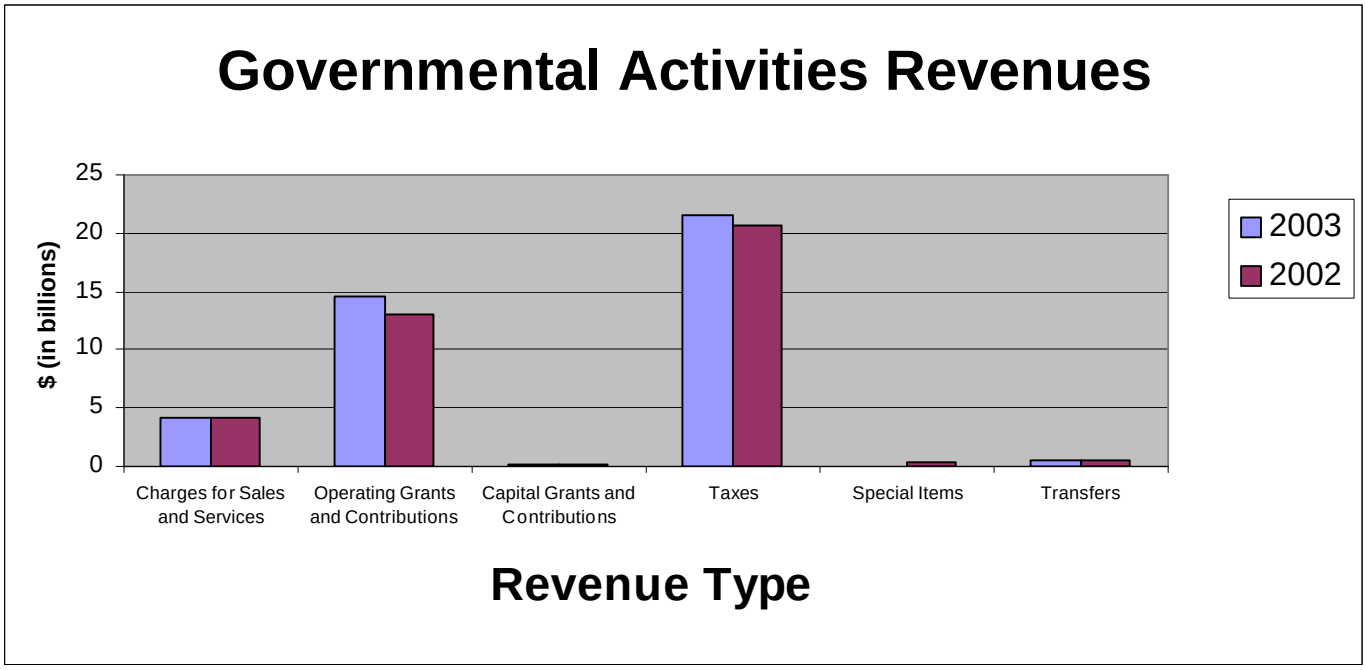
The following presents condensed financial statement information from the Statement of Net Assets (amounts in billions):

	Governmental Activities			Business-Type Activities			Total		
	2003	**2002**	**Change**	**2003**	**2002**	**Change**	**2003**	**2002**	**Change**
Assets:									
Cash and investments ……..	$ 8.5	$ 8.1	$ .4	$4.7	$5.1	$(.4)	$ 13.2	$ 13.2	$ -
Capital assets (net)	19.8	18.5	1.3	-	-	-	19.8	18.5	1.3
All other assets ……	5.2	4.7	.5	1.0	.9	.1	6.2	5.6	.6
Total assets	**33.5**	**31.3**	**2.2**	**5.7**	**6.0**	**(.3)**	**39.2**	**37.3**	**1.9**
Liabilities:									
Accounts payable	3.3	3.0	.3	.5	.4	.1	3.8	3.4	.4
All other current liabilities	3.6	2.6	1.0	.9	.6	.3	4.5	3.2	1.3
Total current liabilities	**6.9**	**5.6**	**1.3**	**1.4**	**1.0**	**.4**	**8.3**	**6.6**	**1.7**
Bonds payable	6.6	5.6	1.0	-	-	-	6.6	5.6	1.0
All other long-term liabilities	2.0	2.4	(.4)	1.8	1.5	.3	3.8	3.9	(.1)
Total long-term liabilities	**8.6**	**8.0**	**.6**	**1.8**	**1.5**	**.3**	**10.4**	**9.5**	**.9**
Total liabilities	**15.5**	**13.6**	**1.9**	**3.2**	**2.5**	**.7**	**18.7**	**16.1**	**2.6**
Net assets:									
Invested in capital assets, net of related debt	16.1	14.8	1.3	-	-	-	16.1	14.8	1.3
Restricted	2.5	1.6	.9	2.5	3.5	(1.0)	5.0	5.1	(.1)
Unrestricted/(deficit)	(.6)	1.3	(1.9)	-	-	-	(.6)	1.3	(1.9)
Total net assets	**$18.0**	**$17.7**	**$ .3**	**$2.5**	**$3.5**	**$(1.0)**	**$20.5**	**$21.2**	**$ (.7)**

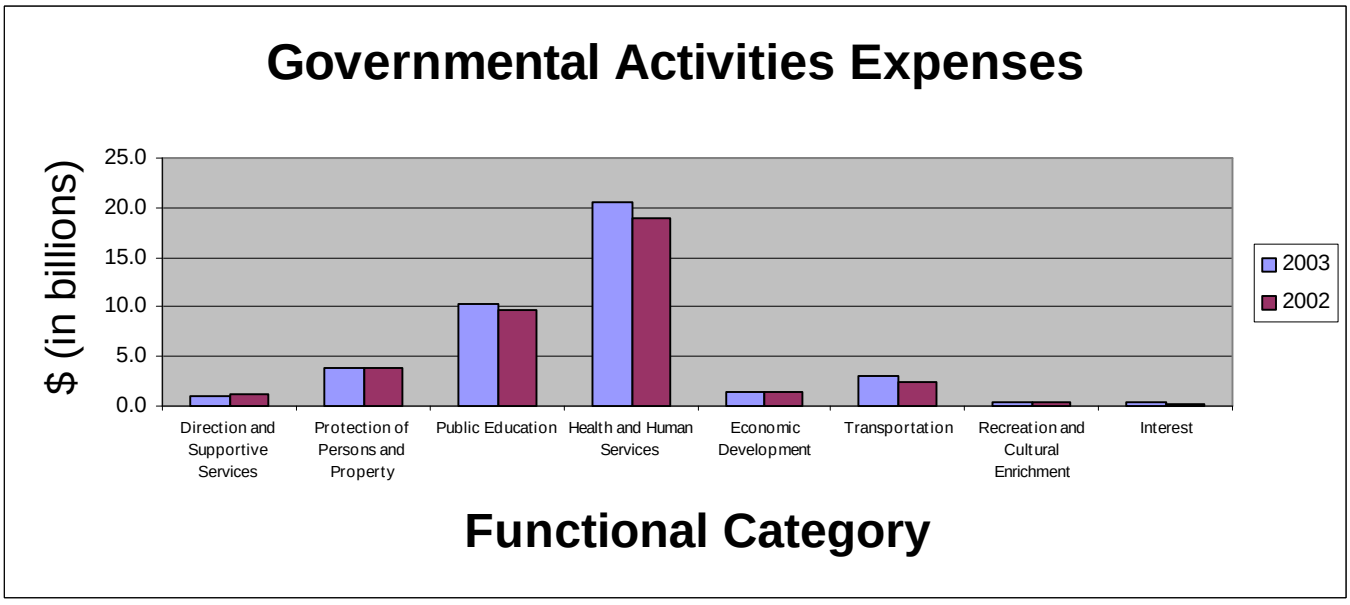
The following presents condensed financial statement information from the Statement of Activities (amounts in billions):

	Governmental Activities			Business-Type Activities			Total		
	2003	**2002**	**Change**	**2003**	**2002**	**Change**	**2003**	**2002**	**Change**
Revenues:									
Program revenues:									
Charges for sales and services	$ 4.2	$ 4.2	$ .0	$ 5.1	$ 5.1	$ .0	$ 9.3	$ 9.3	$ .0
Operating grants and contributions	14.6	13.1	1.5	1.2	.5	.5	15.8	13.6	2.2
Capital grants and contributions	.1	.1	-	-	-	-	.1	.1	-
Total program revenues	**18.9**	**17.4**	**1.5**	**6.3**	**5.6**	**.7**	**25.2**	**23.0**	**2.2**
General revenues:									
Taxes	21.6	20.6	1.0	-	-	-	21.6	20.6	1.0
Total general revenues	**21.6**	**20.6**	**1.0**	**-**	**-**	**-**	**21.6**	**20.6**	**1.0**
Total revenues	**40.5**	**38.0**	**2.5**	**6.3**	**5.6**	**.7**	**46.8**	**43.6**	**3.2**
Expenses:									
Governmental activities:									
Direction and supportive services	1.0	1.3	(.3)	-	-	-	1.0	1.3	(.3)
Protection of persons and property	3.9	3.8	.1	-	-	-	3.9	3.8	.1
Public education	10.2	9.7	.5	-	-	-	10.2	9.7	.5
Health and human services	20.5	18.9	1.6	-	-	-	20.5	18.9	1.6
Economic development	1.4	1.4	-	-	-	-	1.4	1.4	-
Transportation	3.0	2.5	.5	-	-	-	3.0	2.5	.5
Recreation and cultural enrichment	.4	.5	(.1)	-	-	-	.4	.5	(.1)
Interest	.4	.3	.1	-	-	-	.4	.3	.1
Business-type activities:									
State lottery	-	-	-	1.8	1.7	.1	1.8	1.7	.1
Unemployment compensation	-	-	-	3.5	2.8	.7	3.5	2.8	.7
Liquor control	-	-	-	.9	.9	-	.9	.9	-
Workmen's compensation	-	-	-	.2	.2	-	.2	.2	-
Tuition payment	-	-	-	.3	.2	.1	.3	.2	.1
Total expenses	**40.8**	**38.4**	**2.4**	**6.7**	**5.8**	**.9**	**47.5**	**44.2**	**3.3**
Excess/(deficiency) before special item and transfers	(.3)	(.4)	.1	(.4)	(.2)	(.2)	(.7)	(.6)	(.1)
Special item - component unit revenues	-	.3	(.3)	-	-	-	-	.3	(.3)
Transfers	.6	.5	.1	(.6)	(.5)	(.1)	-	-	-
Increase (decrease) in net assets	.3	.4	$(.1)	(1.0)	(.7)	$(.3)	(.7)	(.3)	$(.4)
Net assets, beginning	17.7	17.3		3.5	4.2		21.2	21.5	
Net assets, ending	**$18.0**	**$ 17.7**		**$2.5**	**$ 3.5**		**$20.5**	**$ 21.2**	

The following chart provides a graphic comparison of government activities revenues:



Below is a graph comparing governmental activities expenses by fiscal year:



Overall analysis and discussion of condensed financial statements

During the fiscal year ended June 30, 2003, the overall financial position (net assets) of the Commonwealth, including both governmental and business-type activities, decreased by $.7 billion or 3.3 percent of total beginning net assets. For governmental activities, the net increase in net assets was $.3 billion or 1.7 percent of beginning net assets of $17.7 billion. Total investments, not counting the State Employees Retirement Fund or other fiduciary funds, were over $11.7 billion and total cash balances were over $1.5 billion. These amounts represent considerable liquidity for the current and future fiscal years. The governmental change in net assets is very comparable to the prior year change, where revenues, transfers and special items also slightly exceeded expenses. These increases represent a year-over-year improvement in the Commonwealth's overall financial position during each of the fiscal years ended June 30, 2003 and 2002. On the other hand,

the $1.0 billion decrease in total net assets for **business-type activities** follows a $.7 billion decrease during the prior fiscal year. Both decreases can be attributed to unemployment compensation benefit payments that exceeded employer/employee assessments during each of the fiscal years ended June 30, 2003 and 2002.

Business-type activities revenues were over $.4 billion ($.2 billion in the prior year) less than expenses. Including net transfers to other funds of $.6 billion ($.5 billion in the prior year), business-type activities net assets decreased by over $1 billion ($.7 billion in the prior year). The primary reason for this decrease was that Unemployment Compensation Fund expenses exceeded revenues by $.9 billion ($.6 billion in the prior year). A $.3 billion increase in revenues was far less than a $.7 billion increase in expenses during the fiscal year ended June 30, 2003.

Fund financial statements – governmental funds

Governmental fund financial statements provide fund-specific information about the General Fund, the Motor License Fund, and the Tobacco Settlement Fund, which are treated as major funds; whereas nonmajor funds are presented in the aggregate. Fund statements differ from government-wide statements in a few fundamental ways:

1) While the government-wide statements focus on the government taken as a whole (including governmental and business type activities), the fund statements reveal fund-specific information for major governmental and proprietary funds while nonmajor fund information is aggregated.
2) Unlike the aggregated columns for governmental and business-type activities in government-wide statements, individual funds are established by state law and are used to account for specific, mandated activities. Two examples of specific funds are the Motor License Fund, a special revenue fund where gasoline taxes and motor vehicle registration fees are collected and used to repair and build highways, and the Unemployment Compensation Fund, an enterprise fund, used to collect amounts from employers to pay for unemployment compensation to workers.
3) For governmental fund statements, the current financial resources measurement focus is used, along with the modified accrual basis of accounting. This means that balances and transactions are reported as cash is received and paid, plus certain accrued revenues received within 60 days of fiscal year end, minus amounts representing accrued expenditures that are paid for with currently available revenues. Long-term receivables, for amounts earned or billed but not available at fiscal year end, and capital assets are not reported in the governmental fund financial statements. Nor are long-term liabilities reported. The governmental fund Balance Sheet reports far fewer assets and liabilities than the government-wide Statement of Net Assets. The Statement of Revenues and Expenditures for governmental funds reports only those cash transactions that occurred during the fiscal year or specific cash transactions that occurred within 60 days of fiscal year end.

Budgetary Comparison

Budgetary Comparison Schedules are included as required supplementary information immediately following the Notes to the Financial Statements. These schedules provide a measurement of compliance with legally adopted budgets.

General Fund – economic factors during the fiscal year ended June 30, 2003

Although the recession technically ended in November 2001, the pace of economic activity in the US and in Pennsylvania during the months following the recession's end was slow and uneven. Concerns about falling equity prices, businesses' caution in making investments and their reluctance to add to payrolls, weakness in exports, and the war in Iraq all served to restrain economic growth. An indication of the continuing economic malaise was the continued rise of the Pennsylvania unemployment rate through 2002 to its peak of 5.9 (seasonally adjusted) from December 2002 through February 2003. The federal government, through its fiscal and monetary policies, attacked the weak economic recovery. Measures such as income tax cuts with immediate rebates and continued downward pressure on interest rates were instituted to encourage an economic turn-around. However, their effect will take months to be felt.

This prolonged period of slow economic growth through the fiscal year means that tax and other revenues to the Commonwealth failed to grow sufficient to meet budgets. Pennsylvania, along with many other states and local governments struggled to cope with expenditures growing faster than revenues.

General Fund – budgetary basis - comparison between original budget and final budget

The Budgetary Comparison Schedule for the General Fund for the fiscal year ended June 30, 2003 is presented immediately following the Notes to the Financial Statements. Final budgeted revenues for departmental services exceed the original budget by $884 million. This difference resulted primarily from transfers of $372 million in augmenting revenues from the Motor License Fund for State Police protection of Commonwealth highways (in this case there is no true increase in funds available to

the State Police), net intergovernmental revenues of $282 million, and $259 million in augmenting revenues for general obligation bond debt service that were not reflected in the original budget for departmental services revenues. The General Fund Schedule also discloses that the final budget included $1.02 billion more expenditures than the original budget. The $1.02 billion increase includes $929 million in state program expenditure increases and $89 million of increased Federal participation related to the specific state program expenditure increases. Of the $929 million state program difference, $372 million (40%) relates to increased spending authority for State Police protection of Commonwealth highways, $283 million (30%) relates to increased spending authority for medical assistance and other human services benefits, and $259 million (28%) relates to increased spending for general obligation bond debt service.

General Fund – budgetary basis - comparison between final budget and actual results

Actual budgetary results included tax collection revenues, which were lower than the final budgeted revenue estimate (from June 2002) by $513 million. Also, during the fiscal year, budgetary lapses, for a variety of specific appropriations and executive authorizations amounting to $315 million, were posted to reduce state program spending authority. Actual Federal revenues were $470 million lower than budget because of lower Federal participation than original estimates. Actual Federal revenues were lower than budgeted for the following departments: Public Welfare, $177 million; Labor and Industry, $100 million; Education, $86 million; Environmental Protection, $33 million; Transportation, $27 million; Executive Offices, $16 million; and all other affected departments, $31 million.

Measurement focus and basis of accounting – governmental funds

The General Fund, special revenue, debt service and capital projects funds are reported using the current financial resources measurement focus and modified accrual basis of accounting. Under this measurement focus, only current assets and current liabilities are normally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. Unreserved fund balance represents a measure of available, spendable resources. Under the modified accrual basis of accounting, governmental funds recognize revenue in the year that it becomes susceptible to accrual (both measurable and available) to pay current fiscal year liabilities. Grant revenues, including Federal government grant revenues, are recognized when earned. Revenue recognition from most other sources occurs at receipt. Recognition of expenditures generally occurs in the fiscal year the goods or services are received and the related fund liability is incurred. Debt service expenditures for principal and interest on general long-term obligations are recognized when due. Prepaid items and inventory purchases are reported as current fiscal year expenditures, rather than allocating a portion of related cost to the fiscal year when the items are actually used.

Expenditures for claims, judgments, compensated absences and employer pension contributions are reported as the amount accrued during the fiscal year that normally would be liquidated with expendable available financial resources.

Discussion of individual funds, balances, and transactions

General Fund

Condensed General Fund balance sheets at June 30, 2003 and 2002 are as follows (amounts in millions):

	June 30, 2003	June 30, 2002	Change
Assets:			
Cash and investments	$ 4,131	$ 4,088	$ 43
Receivables, net	2,772	2,676	96
Due from other funds/governments/advances/other	1,622	1,373	249
Total assets	**$ 8,525**	**$ 8,137**	**$ 388**
Liabilities:			
Accounts payable and tax refunds payable	$ 2,996	$ 2,680	$ 316
Securities lending obligations	757	255	502
Due to other funds/governments/advances/other	918	764	154
Deferred revenue	1,496	1,415	81
Total liabilities	**6,167**	**5,114**	**1,053**
Fund Balance:			
Reserved	773	795	(22)
Unreserved:			
Designated	270	624	(354)
Undesignated	1,315	1,604	(289)
Total fund balance	**2,358**	**3,023**	**(665)**
Total liabilities and fund balance	**$ 8,525**	**$ 8,137**	**$ 388**

Cash and investments increased on a net basis by $43 million due to a $459 million decrease in cash balances, more than offset by a $502 million increase in the Treasury Department securities lending program at June 30, 2003. Taxes receivable increased by $102 million and other receivables decreased by $6 million (net). Amounts due from the Federal government increased by $172 million; advances to other funds increased by $85 million and net other assets decreased by $8 million. Liabilities increased by $1,053 million to $6,167 million largely because of a $383 million increase in accounts payable; the aforementioned $502 million increase in securities lending program; a $81 million increase in deferred revenue; and a $100 million increase in advances from other funds; offset by a $63 million decrease in tax refunds payable at June 30, 2003.

Fund balance designations declined by $354 million because a $300 million designation for the Budget Stabilization Reserve Fund (newly established at June 30, 2002) decreased to a zero balance at June 30, 2003 and other fund balance designations decreased by $54 million during the fiscal year, principally a $58 million decrease for group medical and life insurance, a $3 million increase for a judicial computer system, a $15 million increase for agency construction projects and a $14 million decrease in job creation tax credits and other designations.

Condensed General Fund operating statements for the fiscal years ended June 30, 2003 and 2002 follow (amounts in millions):

	June 30, 2003	June 30, 2002	Change
Revenues:			
Taxes, net of refunds	$ 19,554	$ 18,650	$ 904
Intergovernmental	12,944	11,652	1,292
Charges for sales and services	1,797	2,272	(475)
Licenses/fees/investment and other income	766	469	297
Total revenues	**35,061**	**33,043**	**2,018**
Expenditures:			
Direction and supportive services	855	910	(55)
Protection of persons and property	2,941	3,104	(163)
Health and human services	19,549	18,222	1,327
Public education	10,175	8,813	1,362
Recreation and cultural enrichment	324	326	(2)
Economic development	984	825	159
Transportation	407	316	91
Capital outlay	18	51	(33)
Total expenditures	**35,253**	**32,567**	**2,686**
Revenues over expenditures	**(192)**	**476**	**(668)**
Other financing sources (uses):			
Transfers in	426	213	213
Transfers out	(903)	(1,528)	625
Transfers from component units	-	256	(256)
Transfers to component units	-	(1,043)	1,043
Capital lease and installment purchase obligations	4	4	-
Net other financing sources (uses)	**(473)**	**(2,098)**	**1,625**
Net change in fund balance	**(665)**	**(1,622)**	**$ 957**
Fund balance, beginning	**3,023**	**4,645**	
Fund balance, ending	**$ 2,358**	**$ 3,023**	

A large part of the $665 million net decrease in General Fund fund balance was because the General Fund transferred $903 million to other Funds and provided $1,037 million to component units. Without these items, the General Fund would have actually increased by $1,275 million. Total General Fund expenditures increased by 8.2 percent during the fiscal year ended June 30, 2003, on a reported basis, largely because of a sharp increase in expenditures for medical and other assistance (reported as part of health and human services) and a change in classification for component unit subsidies. Year-over-year expenditures for the health and human services function increased by 7.3 percent; otherwise, all other expenditures increased by 2 percent, largely as a result of executive spending controls during the fiscal year, before the change in component unit subsidy treatment. General Fund tax revenues increased by 4.9 percent, due to economic growth and, to a large degree, by increases in cigarette tax rates. Intergovernmental revenues increased by 11.1 percent due to increases in Federally-funded programs, particularly medical and other assistance. Total General Fund revenues increased by 6.1 percent during the fiscal year. The overall decrease in fund balance ($665 million) during the fiscal year was an improvement of $957 million over the prior year fiscal year decrease in fund balance ($1,622 million). On an overall basis, during periods of declining or slow economic growth, it is common for the fund balance of the General Fund to decline.

Motor License Fund

Comparative financial statement information for the Motor License Fund is as follows (amounts in millions):

	2003		2002	Increase (Decrease)	
Description	**Amount**	**Percent**	**Amount**	**Amount**	**Percent**
Cash and Investments	$ 1,151	76%	$ 899	$ 252	28%
Other Assets	364	24%	372	(8)	-2%
Total Assets	**1,515**	**100%**	**1,271**	**244**	**19%**
Accounts Payable	346	56%	423	(77)	-18%
Securities Lending Obligations	205	33%	58	147	253%
Other Liabilities	71	11%	77	(6)	-8%
Total Liabilities	**622**	**100%**	**558**	**64**	**11%**
Total Fund Balance	**893**	**100%**	**713**	**179**	**25%**
Tax Revenues	1,705	42%	1,694	11	1%
License and Fees	842	21%	839	3	0%
Federal Revenues	1,380	34%	1,403	(23)	-2%
Other Revenues	125	3%	94	31	33%
Total Revenues	**4,052**	**100%**	**4,030**	**22**	**1%**
Direction and Supportive Services	48	1%	49	(1)	-2%
Protection of Persons and Property	514	13%	493	21	4%
Transportation	3,206	84%	3,369	(163)	-5%
Capitol Outlay	39	1%	46	(7)	-15%
Other Expenditures	5	0%	3	2	67%
Total Expenditures	**3,812**	**100%**	**3,960**	**(148)**	**-4%**
Net Transfers Out	(60)	102%	(87)	27	-31%
Other Financing Sources (Uses)	1	-2%	(23)	24	-104%
Net Other Financing Sources (Uses)	**(59)**	**100%**	**(110)**	**51**	**-46%**
Net Change in Fund Balances	**$ 181**	**100%**	**$ (40)**	**$ 221**	**-553%**

Revenues for the Motor License Fund are derived primarily from driver and vehicle licenses, motor fuel taxes and Federal funding; whereas expenses are primarily for the construction and maintenance of Pennsylvania's transportation infrastructure. Although revenues were relatively flat from 2002 to 2003, transportation expenditures were down $163 million, or 5%, as a result of lower enacted appropriations. This resulted in a $252 million, or 28%, increase in cash and investment balances as well as a corresponding $147 million, or 253%, increase in securities lending liabilities. Increased patrolling by the Pennsylvania State Police resulted in 4% higher protection of persons and property expenditures.

Tobacco Settlement Fund

Comparative financial statement information for the Tobacco Settlement Fund is as follows (amounts in millions):

	2003		2002	Increase (Decrease)	
Description	**Amount**	**Percent**	**Amount**	**Amount**	**Percent**
Cash and Investments	$ 959	89%	$ 1,053	$ (94)	-9%
Other Assets	119	11%	74	45	61%
Total Assets	**1,078**	**100%**	**1,127**	**(49)**	**-4%**
Accounts Payable	139	54%	192	(53)	-28%
Securities Lending Asset/Liability	84	32%	0	84	0%
Other Liabilities	36	14%	0	36	0%
Total Liabilities	**259**	**100%**	**192**	**67**	**35%**
Total Fund Balance	**819**	**100%**	**712**	**107**	**15%**
Intergovernmental	108	19%	76	32	42%
Investment Income	37	6%	7	30	429%
Other Revenues	427	75%	433	(6)	0%
Total Revenues	**572**	**100%**	**516**	**56**	**11%**
Protection of Persons and Property	80	12%	0	80	
Health and Human Services	474	73%	331	143	43%
Economic Development	100	15%	0	100	0%
Total Expenditures	**654**	**100%**	**331**	**323**	**98%**
Net Transfers In (Out)	(36)	100%	758	(794)	-105%
Other Financing Sources (Uses)	0	0%	(8)	8	-100%
Net Other Financing Sources (Uses)	**(36)**	**100%**	**750**	**(786)**	**-105%**
Net Change in Fund Balances	**$ (118)**	**100%**	**$ 935**	**$ (1,053)**	**-113%**

Intergovernmental revenues increased by $32 million during the fiscal year ended June 30, 2003, from $76 million to $108 million, because of net increased Federal participation and because of Federally-funded program expansion during the fiscal year. Investment income increased by $30 million during the fiscal year because of increasing investment fair value during the fiscal year ended June 30, 2003. Other revenues, consisting of Master Settlement Agreement (MSA) receipts, decreased by $6 million. MSA receipts are directly related to tobacco product sales. Those sales decreased during the MSA measurement period. Fund expenditures grew nearly 98 percent because of greatly increased and expanded programs funded through MSA receipts. New programs for protection of persons and property expenditures and economic development, respectively, increased by $80 million and $100 million and health and human services expenditures increased by $143 million during the fiscal year ended June 30, 2003. Year-over-year statutory net transfers to/from the Fund decreased by $794 million, largely because of the one-time transfer of cumulative MSA receipts and related investment income, amounting to $854 million, from the General Fund to the Tobacco Settlement Fund during the fiscal year ended June 30, 2002.

Measurement focus and basis of accounting – proprietary funds

The enterprise funds and internal service funds (proprietary funds) are reported using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus all assets and liabilities associated with the operations of these funds are included on the statement of net assets. Under the accrual basis of accounting, revenues are recognized in the fiscal year earned and expenses are recognized in the fiscal year incurred. Enterprise funds that report loan, insurance and tuition payment programs report all revenues as operating revenues; non-operating revenues are reported for other programs and include investment income and grant revenues. Under the Governmental Accounting Standards Board's (GASB) Statement 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," the Commonwealth has elected not to adopt the Financial Accounting Standards Board pronouncements issued after November 30, 1989. Four enterprise funds are reported as major funds and are discussed below (amounts in millions).

Unemployment Compensation Fund

	2003		2002	Increase (Decrease)	
Description	**Amount**	**Percent**	**Amount**	**Amount**	**Percent**
Cash and Investments	$ 1,379	74%	$ 2,351	$ (972)	-41%
Other Assets	496	26%	402	94	23%
Total Assets	**1,875**	**100%**	**2,753**	**(878)**	**-32%**
Accounts Payable	206	97%	156	50	32%
Other Liabilities	6	3%	6	0	0%
Total Liabilities	**212**	**100%**	**162**	**50**	**31%**
Net Assets	**1,663**		**2,591**	**(928)**	**-36%**
Sales and Services	1,532	60%	1,761	(229)	-13%
Investment Income	103	4%	156	(53)	-34%
Other Revenues	907	36%	343	564	164%
Total Revenues	**2,542**	**100%**	**2,260**	**282**	**12%**
Cost of Sales and Services	3,470	100%	2,820	650	23%
Total Expenses	**3,470**	**100%**	**2,820**	**650**	**23%**
Decrease in Net Assets	**$ (928)**		**$ (560)**	**$ (368)**	**66%**

Decreases in cash/investments, total assets and net assets during the fiscal year were attributable to increases in expenses which were not offset by higher revenues. During the fiscal year ended June 30, 2003, unemployment compensation benefit claims continued at high levels. Incoming revenues from employer contributions and Federally funded programs, while $282 million higher than the previous fiscal year, were not sufficient to fully fund higher June 30, 2003 benefit payments and other expenses ($650 million higher) and, as a result, cash and investment balances decreased significantly. This same situation has resulted in decreases in reported total assets and increases in liabilities at June 30, 2003. During the fiscal year, statutory contribution increases were triggered for employers and employees in an effort to improve the Fund's continuing ability to make benefit payments. The Temporary Extended Unemployment Compensation Program, established by Federal legislation during the fiscal year ended June 30, 2002, also continued to provide an additional 13 weeks of benefit payments for qualified claimants. This program is supported by Federal funding and resulted in increases in Fund revenues and expenses.

State Workmen's Insurance Fund (December 31, 2002)

	2003		2002	Increase (Decrease)	
Description	**Amount**	**Percent**	**Amount**	**Amount**	**Percent**
Cash and Short-term Investments	$ 589	30%	$ 536	$ 53	10%
Long-Term Investments	1,318	68%	1,235	83	7%
Other Assets	38	2%	34	4	12%
Total Assets	**1,945**	**100%**	**1,805**	**140**	**8%**
Securities Lending Obligations	510	31%	469	41	9%
Deferred Revenue	0	0%	35	(35)	-100%
Insurance Loss Liability	1,040	63%	1,033	7	1%
Other Liabilities	94	6%	22	72	327%
Total Liabilities	**1,644**	**100%**	**1,559**	**85**	**5%**
Net Assets	**301**	**100%**	**246**	**55**	**22%**
Sales and Services	181	65%	100	81	81%
Investment Income	97	35%	50	47	94%
Other Revenues	0	0%	0	0	0%
Total Revenues	**278**	**100%**	**150**	**128**	**85%**
Cost of Sales and Services	212	94%	168	44	26%
Interest Expense	6	3%	5	1	20%
Provision for Uncollectible Accounts	8	3%	2	6	300%
Other Expenses	0	0%	0	(0)	-100%
Total Expenses	**226**	**100%**	**175**	**51**	**29%**
Increase (Decrease) in Net Assets	**$ 52**		**$ (25)**	**$ 77**	**-307%**

Cash, investments and other assets of the State Workmen's Insurance Fund increased during calendar year 2002 because of a year-over-year increase in policies. Similarly, revenues increased during 2002. Investment income increased by $47 million due to increased policies and better investment results. Total expenses increased by $51 million due to increased claim expenses. Overall net assets increased by $52 million during 2002, compared to a decrease of $25 million during the prior year, for a year-over-year increase in the change in total net assets of $77 million during calendar year 2002.

State Lottery Fund

	2003		2002	Increase (Decrease)	
Description	**Amount**	**Percent**	**Amount**	**Amount**	**Percent**
Cash and Short-term Investments	$ 406	92%	$ 340	$ 66	19%
Long-Term Investments	14	3%	14	0	1%
Other Assets	24	5%	22	2	9%
Total Assets	**444**	**100%**	**376**	**68**	**18%**
Accounts Payable	219	73%	187	32	17%
Securities Lending Obligations	76	25%	0	76	--
Other Liabilities	7	2%	8	(1)	-13%
Total Liabilities	**302**	**100%**	**195**	**107**	**55%**
Net Assets	**142**	**100%**	**181**	**(39)**	**-22%**
Sales and Services	2,100	97%	1,933	167	9%
Other Revenues	69	3%	66	3	5%
Total Revenues	**2,169**	**100%**	**1,999**	**170**	**9%**
Cost of Sales and Services	1,762	96%	1,614	148	9%
Other Expenses	65	4%	68	(3)	-4%
Total Operating Expenses	**1,827**	**100%**	**1,682**	**145**	**9%**
Operating Income (Loss)	**342**		**317**	**25**	**8%**
Nonoperating Revenues	**15**		**23**	**(8)**	**-35%**
Income (Loss) Before Transfers	**357**		**340**	**17**	**5%**
Transfers	**(395)**		**(359)**	**(36)**	**10%**
Decrease in Net Assets	**$ (38)**		**$ (19)**	**$ (19)**	**100%**

State Lottery Fund cash and investments increased due to an expansion in the Treasury Department securities lending program during the fiscal year. Revenues and expenses increased primarily due to the Commonwealth's participation in the Powerball game during the fiscal year. The current year statutory transfer from the Fund for the payment of benefits to the elderly that the Fund subsidizes amounted to $395 million, an increase of $36 million over the prior fiscal year.

Tuition Payment Fund

Description	2003 Amount	2003 Percent	2002 Amount	Increase (Decrease) Amount	Increase (Decrease) Percent
Cash and Short-term Investments	$ 194	28%	$ 143	$ 51	36%
Long-Term Investments	504	72%	267	237	89%
Other Assets	2	0%	2	0	0%
Total Assets	**700**	**100%**	**412**	**288**	**70%**
Securities Lending Obligations	87	12%	34	53	156%
Tuition Benefits Payable	658	87%	399	259	65%
Other Liabilities	7	1%	5	2	40%
Total Liabilities	**752**	**100%**	**438**	**314**	**72%**
Net Assets	**(52)**	**100%**	**(26)**	**(26)**	**100%**
Sales and Services	234	89%	157	77	49%
Investment Income	28	11%	(6)	34	-
Total Revenues	**262**	**100%**	**151**	**111**	**74%**
Cost of Sales and Services	288	100%	191	97	51%
Total Expenses	**288**	**100%**	**191**	**97**	**51%**
Decrease in Net Assets	**$ (26)**		**$ (40)**	**$ 14**	**-35%**

The Tuition Payment Fund cash and investments balance increased during the fiscal year due to an expansion in the Treasury Department securities lending program. The total tuition benefits payable liability, which incorporates a variety of actuarial assumptions, increased by $259 million, from $399 million at June 30, 2002 to $658 million at June 30, 2003. The 49 percent increase in sales and services is attributable to increases in the number of tuition credit purchasers as well as increases in the per-credit tuition price charged to purchasers, while investment income increased due to much more favorable year-over-year investment returns. Year-over-year expenses increased by $97 million, largely as a result of tuition cost increases. Fund net assets decreased by $26 million during the current fiscal year, while total net assets decreased by $40 million during the prior fiscal year, resulting in a year-over-year decrease of $14 million in the change in total net assets.

Capital asset activity during the fiscal year ended June 30, 2003

Throughout the fiscal year, Commonwealth agencies acquire or construct capital assets. In governmental fund statements, expenditures for capital assets are typically reported as capital outlay. Funding for a significant portion of capital asset acquisition is provided by proceeds of general obligation bonds issued; such proceeds are generally accounted for in the capital projects funds in the funds financial statements as an other financing source. In the government-wide statements, bond proceeds are reported as additions to long-term bond liabilities and completed project expenditures and construction in progress at fiscal year end are reported as part of general capital assets. Construction in progress for Department of General Services (public works) and Department of Transportation (highway and bridge) projects at June 30, 2003 amounted to $1.2 and $1.9 billion, respectively. Authorized but unissued general obligation bonds at June 30, 2003 totaled $33.5 billion.

General capital assets of the Commonwealth are those used in the performance of specific governmental functions during more than one fiscal year. Capital assets of the proprietary funds are reported in both fund statements and in government-wide statements. Fiduciary fund capital assets are reported in fund statements; fiduciary funds are not included in government-wide statements. General capital assets as of June 30, 2003 amounted to $19.7 billion at actual or estimated historical cost, net of accumulated depreciation of $9.1 billion. In the government-wide statements, depreciation expense for all capital assets is reported to recognize the cost of "using up" capital assets over their estimated useful lives. This treatment differs from reporting capital outlay as a current year expenditure in governmental funds. Highway and bridge infrastructure assets are typically funded by Motor License Fund taxes, license and registration fees and Federal revenues. The Motor License Fund reports transportation and capital outlay expenditures in fund statements; a portion of such expenditures is reported as additions to capital assets in government-wide statements. Depreciation of highway and bridge infrastructure assets is not related to the quality or relative value of these assets; rather, it is a specific accounting treatment to recognize the cost of "using up" the Assets over long periods of time (25 years for highways and 50 years for bridges.) Depreciation is an allocation of an asset's cost over its estimated useful life and is reported in government-wide statements. Note E to the financial statements provides more information on capital asset activities during the fiscal year ended June 30, 2003.

Long-term debt activity during the fiscal year ended June 30, 2003

The constitution of the Commonwealth of Pennsylvania permits the incurrence of debt, without approval of the electorate, for capital projects specifically authorized in a capital budget. Capital project debt outstanding cannot exceed one and three quarters (1.75) times the average of the annual tax revenues deposited in all funds during the previous five fiscal years. The certified constitutional debt limit at August 31, 2003 was $42.5 billion. Outstanding capital project debt at August 31, 2003 amounted to $6.0 billion, for a remaining legal debt margin of $36.5 billion. In addition to constitutionally authorized capital project debt, the Commonwealth may incur debt for electorate-approved programs, such as economic revitalization, land and water development, and water facilities restoration; and for special purposes approved by the General Assembly, such as disaster relief.

Total general obligation bond indebtedness outstanding at June 30, 2003 was $7.031 billion. Total debt service transfers paid from General Fund, Motor License Fund and Capital Facilities Fund appropriations to make principal and interest payments to bondholders during the fiscal year ended June 30, 2003 amounted to $715 million. The table that follows shows total outstanding long-term indebtedness for general obligation bonds at the end of the eight most recent fiscal years (expressed in billions).

At June 30	Outstanding Bond Indebtedness
1996	$ 5.062
1997	4.842
1998	4.841
1999	5.254
2000	5.367
2001	5.545
2002	6.072
2003	7.031

Note K to the financial statements provides more specific details on long-term debt balances and activity during the fiscal year ended June 30, 2003.

Debt administration – fiscal year ending June 30, 2004

During the fiscal year ending June 30, 2004 the Office of the Budget currently plans general obligation bond issuances amounting to $1.0345 billion, a decrease of $934.2 million when compared to actual bond issuances of $1.969 billion during the fiscal year ended June 30, 2003. This plan reflects the need to make investments in the Commonwealth's capital infrastructure, particularly prisons, highways, bridges, mass transportation and water supply systems. Debt principal retirements of $455.9 million are currently planned for the fiscal year ending June 30, 2004.

In addition to general obligation bonds, the Commonwealth may issue tax anticipation notes to meet operating cash needs during certain months of the fiscal year. Tax anticipation notes may be issued only for the General Fund and the Motor License Fund. They may not exceed 20 percent of the funds' estimated revenues for the year, and must mature during the fiscal year in which they are issued. Cash shortages may occur during the fiscal year because tax receipts, unlike cash disbursements, are concentrated in the last four months of the fiscal year. The Commonwealth has not issued tax anticipation notes during the past five fiscal years and has no plans to issue any during the 2004 fiscal year. There were no changes in credit ratings and there were no debt limitations during the fiscal year ended June 30, 2003 that might affect the Commonwealth's plans during the fiscal year ending June 30, 2004.

Legislative changes during fiscal year 2003-2004

During the fiscal year that began July 1, 2003, the legislature passed several laws that are expected to have an effect on financial position or changes in financial position the most significant of which was Act 46 of 2003. This act increases the Personal Income Tax from 2.8 percent to 3.07 percent beginning January 1, 2004; imposes a gross receipts tax on interstate calls and cellular communications, effective December 31, 2003; increases the cigarette tax from $1.00 to $1.35 per pack and delays the Capital Stock and Franchise Tax phase-out. Overall the act is expected to generate annual revenues of $1.3 billion.

Fiscal year 2003-2004 tax collections

The initial fiscal year 2004 budget estimate for Commonwealth revenues was prepared in March 2003 at the time of budget enactment based upon a "low growth" economic forecast for national real gross domestic product during the second quarter of 2003 to the second quarter of 2004. The forecast anticipated that growth in the national economy would be below average due to uncertainties at that time, particularly regarding the potential for war with Iraq, an increase in the unemployment rate, and sluggish growth in personal income and personal consumption. Performance of the Pennsylvania economy was anticipated to follow closely the national rate. However, more recent economic indicators at the national level portray a more robust and sustainable recovery that has been taking shape. As result, the original 2004 budget estimate of certified revenues was increased by $630 million, or 3.0 percent, to reflect improving economic conditions since March 2003. Further, certain Commonwealth taxes and fees were increased to provide $794 million of additional fiscal year 2004 revenues. The combination of these two revisions resulted in a final revised official revenue estimate of $22,191.3 million for fiscal year 2004. Actual General Fund revenues (budgetary basis) for the fiscal year through April 2004 are $368 million (2%) over estimate. Most major revenue sources show receipts above estimate for the fiscal year-to-date period. Based on improved national economic data, the Commonwealth now anticipates that revenues will be at least $368 million (2%) over estimate for the fiscal year ending June 30, 2004.

Management's discussion and analysis is intended to enhance the reader's understanding of the basic financial statements, which immediately follow. This supplementary information should be read in conjunction with the government-wide financial statements, the fund financial statements and the notes to financial statements.

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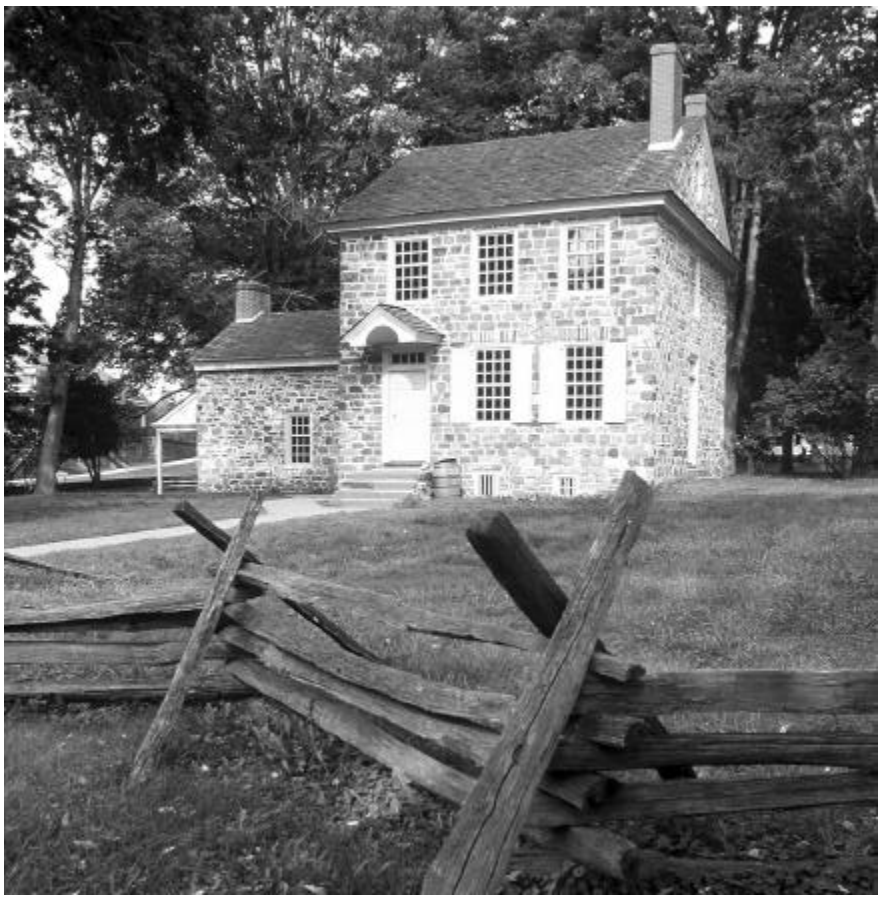
Basic Financial Statements



Valley Forge

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Government-Wide Financial Statements

Philadelphia Museum of Art

Philadelphia

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets:				
Cash—Note D	$ 94,395	$ 20,234	$ 114,629	$ 372,308
Cash with fiscal agents—Note D	-	1,378,778	1,378,778	-
Temporary investments—Note D	6,717,547	1,444,072	8,161,619	2,036,723
Receivables (net):				
Taxes—Note G	2,070,663	-	2,070,663	-
Unemployment assessments	-	388,341	388,341	-
Accounts	252,224	74,770	326,994	88,067
Accrued interest	10,247	13,755	24,002	102,158
Loans—Note G	20,555	41,601	62,156	937,084
Lease rentals—Note G	1,334	-	1,334	634
Other	9,429	35	9,464	20,323
Due from pension trust funds—Note H	869	5	874	-
Due from primary government—Note H	-	-	-	7,522
Due from component units—Note H	18,651	374	19,025	76
Due from Federal government	1,774,116	57,077	1,831,193	7,233
Due from political subdivisions	6,664	7,629	14,293	-
Due from other governments	-	17,644	17,644	7,387
Inventory	80,241	161,649	241,890	24,582
Prepaid and deferred expenses	-	1,772	1,772	78,567
Total current assets	11,056,935	3,607,736	14,664,671	3,682,664
Noncurrent assets:				
Long-term investments—Note D	1,683,989	1,833,570	3,517,559	2,314,072
Advances to other funds—Note H	117,108	-	117,108	-
Receivables (net):				
Taxes—Note G	764,771	-	764,771	-
Loans—Note G	27,180	192,322	219,502	7,830,631
Lease rentals—Note G	-	-	-	18,151
Non-depreciable capital assets—Note E:				
Land	1,325,661	323	1,325,984	141,328
Construction in progress	3,035,078	6,708	3,041,786	540,219
Depreciable capital assets—Note E:				
Land improvements	413,071	-	413,071	169,026
Buildings and building improvements	3,953,134	25,727	3,978,861	1,518,380
Machinery and equipment	678,120	71,243	749,363	500,602
Library books and other	-	-	-	147,253
Turnpike infrastructure	-	-	-	3,749,954
Highway infrastructure	13,814,760	-	13,814,760	-
Bridge infrastructure	5,758,394	-	5,758,394	-
Waterway infrastructure	1,700	-	1,700	-
Infrastructure-other	8,614	-	8,614	-
Less: accumulated depreciation	(9,197,837)	(61,580)	(9,259,417)	(3,099,949)
Net depreciable capital assets	15,429,956	35,390	15,465,346	2,985,266
Other assets	3,097	375	3,472	168,372
Total non-current assets	22,386,840	2,068,688	24,455,528	13,998,039
TOTAL ASSETS	$ 33,443,775	$ 5,676,424	$ 39,120,199	$ 17,680,703

- The notes to the financial statements are an integral part of this statement. -

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	$ 3,277,934	$ 535,949	$ 3,813,883	$ 296,450
Tax refunds payable	576,000	-	576,000	-
Tuition benefits payable	-	48,800	48,800	-
Securities lending obligations	1,406,337	718,533	2,124,870	1,070
Internal balances—Note H	(527)	22,776	22,249	-
Due to pension trust funds—Note H	8,601	72	8,673	-
Due to primary government—Note H	-	-	-	5,016
Due to component units—Note H	7,523	-	7,523	22
Due to political subdivisions	789,488	2,478	791,966	-
Due to other governments	28,697	6,652	35,349	6
Interest payable	88,090	-	88,090	110,883
Deferred revenue	86,553	77,196	163,749	50,369
Notes payable—Note J	-	-	-	210,708
Bonds payable—Note K	458,017	-	458,017	20,327
Revenue bonds payable—Note K	-	-	-	163,521
Self insurance liabilities—Note M	18,500	-	18,500	-
Compensated absence liability—Note K	106,523	7,066	113,589	34,434
Other liabilities	30,978	11,707	42,685	62,879
Total current liabilities	6,882,714	1,431,229	8,313,943	955,685
Noncurrent liabilities:				
Tuition benefits payable—Note F	-	609,341	609,341	-
Deferred revenue	-	-	-	1,253
Advances from other funds—Note H	112,508	86,626	199,134	-
Demand revenue bonds payable—Note J	-	-	-	3,471,000
Insurance loss liability—Note F	-	1,040,265	1,040,265	-
Notes payable—Note J	-	-	-	551,718
General obligation bonds payable—Note K	6,572,601	-	6,572,601	-
Bonds payable—Note K	-	-	-	505,333
Revenue bonds payable—Note K	-	-	-	6,181,858
Capital lease/installment purchase obligations—Note K	62,131	-	62,131	32,000
Compensated absence liability—Note K	633,733	27,087	660,820	70,019
Self insurance liabilities—Note M	650,578	14,693	665,271	-
Other liabilities—Note K	530,420	-	530,420	928,857
Total non-current liabilities	8,561,971	1,778,012	10,339,983	11,742,038
TOTAL LIABILITIES	15,444,685	3,209,241	18,653,926	12,697,723
NET ASSETS—Note C				
Invested in capital assets, net of related debt	16,106,064	42,421	16,148,485	897,569
Restricted for:				
Transportation	553,212	31,742	584,954	-
Capital projects	301,628	-	301,628	732,575
Debt service	32,685	-	32,685	320,512
Unemployment/worker's compensation	48,847	1,960,499	2,009,346	-
Elderly programs	111,659	142,284	253,943	-
Environmental and conservation programs	445,350	-	445,350	-
Other purposes	1,003,117	361,993	1,365,110	2,755,518
Unrestricted (deficit)	(603,472)	(71,756)	(675,228)	276,806
TOTAL NET ASSETS	$ 17,999,090	$ 2,467,183	$ 20,466,273	$ 4,982,980

- The notes to the financial statements are an integral part of this statement. -

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Sales and Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Governmental Activities	Primary Government: Business-Type Activities	Primary Government: Total	Component Units
Primary government:								
Governmental activities:								
Direction and supportive services	$ 1,024,071	$ 347,910	$ 212,487	$ -	$ (463,674)	$ -	$ (463,674)	$ -
Protection of persons and property	3,921,413	627,529	567,027	17,693	(2,709,164)	-	(2,709,164)	-
Public education	10,219,211	-	1,345,932	-	(8,873,279)	-	(8,873,279)	-
Health and human services	20,454,323	2,049,640	10,553,837	-	(7,850,846)	-	(7,850,846)	-
Economic development	1,455,272	142,914	432,942	106,922	(772,494)	-	(772,494)	-
Transportation	2,998,824	914,129	1,429,181	11,124	(644,390)	-	(644,390)	-
Recreation and cultural enrichment	435,864	143,221	32,877	401	(259,365)	-	(259,365)	-
Interest	370,284	-	-	-	(370,284)	-	(370,284)	-
Total governmental activities	40,879,262	4,225,343	14,574,283	136,140	(21,943,496)	-	(21,943,496)	-
Business-type activities:								
State lottery	1,827,306	2,103,644	80,113	-	-	356,451	356,451	-
State workmen's insurance	225,483	180,664	97,023	-	-	52,204	52,204	-
Tuition payment	288,118	234,460	27,311	-	-	(26,347)	(26,347)	-
Unemployment compensation	3,470,257	1,532,213	1,010,443	-	-	(927,601)	(927,601)	-
Liquor control	954,763	1,025,813	3,739	-	-	74,789	74,789	-
Economic development and other	12,663	15,878	4,962	6,706	-	14,883	14,883	-
Total business-type activities	6,778,590	5,092,672	1,223,591	6,706	-	(455,621)	(455,621)	-
Total primary government	$ 47,657,852	$ 9,318,015	$ 15,797,874	$ 142,846	(21,943,496)	(455,621)	(22,399,117)	-
Component units:								
Total component units	$ 3,467,699	$ 1,775,517	$ 1,692,029	$ 144,453	-	-	-	144,300
General revenues:								
Taxes:								
Personal income					6,691,957	-	6,691,957	-
Sales and use					7,511,233	-	7,511,233	-
Corporation					3,418,599	-	3,418,599	-
Liquid fuels and motor carriers					1,666,795	-	1,666,795	46,288
Inheritance					634,365	-	634,365	-
Other					1,616,368	-	1,616,368	-
Total taxes					21,539,317	-	21,539,317	46,288
Investment income					115,829	-	115,829	-
Other					-	-	-	417
Total general revenues					21,655,146	-	21,655,146	46,705
Transfers—Note H					551,807	(551,807)	-	-
Net general revenues and transfers					22,206,953	(551,807)	21,655,146	46,705
Change in net assets					263,457	(1,007,428)	(743,971)	191,005
Net assets, July 1, 2002—Note B					17,735,633	3,474,611	21,210,244	4,791,975
Net assets, June 30, 2003—Note C					$ 17,999,090	$ 2,467,183	$ 20,466,273	$ 4,982,980

- The notes to the financial statements are an integral part of this statement. -

Fund
Financial Statements

Longwood Gardens

Kennett Square

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	General Fund	Motor License Fund	Tobacco Settlement Fund	Nonmajor Funds	Total
ASSETS					
Assets:					
Cash—Note D	$ 43,155	$ 18,219	$ 10,479	$ 20,569	$ 92,422
Temporary investments—Note D	3,468,263	829,198	628,646	1,732,497	6,658,604
Long-term investments—Note D	619,218	304,020	319,566	441,185	1,683,989
Receivables, net:					
Taxes—Note G	2,673,101	144,785	-	17,548	2,835,434
Accounts	85,431	-	609	18,767	104,807
Accrued interest	3,947	1,711	-	4,589	10,247
Loans—Note G	9,691	-	-	38,265	47,956
Lease rentals—Note G	-	-	-	1,334	1,334
Other	-	7,418	-	3	7,421
Due from other funds—Note H	46,333	14,854	6,167	66,357	133,711
Due from pension trust funds—Note H	838	-	-	13	851
Due from component units—Note H	1,341	-	-	4,814	6,155
Due from Federal government	1,453,149	191,451	112,887	16,630	1,774,117
Due from political subdivisions	3,199	3,207	-	-	6,406
Advances to other funds—Note H	114,108	-	-	3,000	117,108
Other assets	3,000	-	-	-	3,000
TOTAL ASSETS	$ 8,524,774	$ 1,514,863	$ 1,078,354	$ 2,365,571	$ 13,483,562
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	$ 2,420,906	$ 345,855	$ 139,240	$ 334,419	$ 3,240,420
Tax refunds payable	575,108	892	-	-	576,000
Securities lending obligations	757,308	205,181	84,368	348,666	1,395,523
Due to other funds—Note H	90,304	21,563	19,535	23,013	154,415
Due to component units—Note H	-	7,522	-	-	7,522
Due to pension trust funds	4,421	4,128	-	52	8,601
Due to political subdivisions	691,881	19,558	16,602	61,447	789,488
Due to other governments	16,085	11,819	-	744	28,648
Deferred revenue	1,495,387	3,037	-	34,943	1,533,367
Advances from other funds—Note H	100,000	2,175	-	10,333	112,508
Other liabilities	15,661	-	-	1,017	16,678
TOTAL LIABILITIES	6,167,061	621,730	259,745	814,634	7,863,170
Fund balances:					
Reserved for:					
Encumbrances	341,881	456,015	-	712,520	1,510,416
Advances—Note C	114,108	-	-	3,000	117,108
Loans receivable	9,470	-	-	38,186	47,656
Other—Note C	307,974	-	388,527	56,884	753,385
Unreserved:					
Designated for:					
Capital projects	-	-	-	54,026	54,026
Debt service:					
Retirement of general obligation bonds	-	-	-	32,685	32,685
Highways	-	215,946	-	-	215,946
Other—Note C	269,775	-	-	-	269,775
Undesignated (deficit)-reported in:					
General Fund	1,314,505	-	-	-	1,314,505
Special Revenue Funds	-	221,172	430,082	1,052,280	1,703,534
Capital Projects Funds	-	-	-	(398,644)	(398,644)
TOTAL FUND BALANCES	2,357,713	893,133	818,609	1,550,937	5,620,392
TOTAL LIABILITIES AND FUND BALANCES	$ 8,524,774	$ 1,514,863	$ 1,078,354	$ 2,365,571	$ 13,483,562

- The notes to the financial statements are an integral part of this statement. -

RECONCILIATION OF THE BALANCE SHEET GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS *June 30, 2003*

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

The governmental funds balance sheet reports total fund balance for all governmental funds. In the governmental activities column in the Statement of Net Assets, amounts are reported for all governmental funds and are adjusted to account for specific items that are treated differently on the Statement of Net Assets than on the governmental funds Balance Sheet. Under the modified accrual basis of accounting, numerous governmental assets are not reported because they may not be "available," (that is, they are not current financial resources) and, similarly, numerous governmental liabilities are not reported because they are not due and payable until after fiscal year end. The following reconciliation begins with total governmental funds fund balance and ends with total net assets for governmental activities. It includes all of the adjustments made to "convert" governmental fund information in the fund financial statements to governmental activities information in the Statement of Net Assets.

Total Fund Balances--Governmental Funds		$ 5,620,392
General capital assets used in governmental activities are not financial resources and are therefore not reported in the governmental funds balance sheet. (Refer to Note E.) These assets consist of:		
Land	$ 1,325,655	
Land improvements	412,780	
Buildings and building improvements	3,949,138	
Machinery and equipment	583,085	
Infrastructure	19,583,468	
Construction in progress	3,035,078	
Accumulated depreciation	(9,147,291)	
Net general capital assets		19,741,913
Certain revenues are earned but not available at fiscal year-end and therefore are reported as deferred revenues in the governmental funds balance sheet		1,446,822
Certain receivables are not reported as governmental fund assets because they are not collected during the availability period under the modified accrual basis of accounting		159,609
Internal service funds are proprietary in nature and charge the costs of certain goods and services to governmental funds. Therefore, the assets and liabilities of the internal service funds are included in the Statement of Net Assets as governmental activities		89,958
The Statement of Net Assets includes inventories that are not reported in the governmental funds balance sheet because they are not current financial resources		69,006
Certain general long-term liabilities are not due and payable at fiscal year-end and therefore are not reported in the governmental funds balance sheet. (Refer to Note K.) These liabilities are:		
Bonds payable	$ (7,030,618)	
Accrued bond interest payable	(88,090)	
Capital lease and installment purchase obligations	(62,131)	
Compensated absence liability	(740,256)	
Self-insurance liabilities	(669,078)	
Other liabilities	(530,420)	
Accounts payable	(8,017)	
		(9,128,610)
Total Net Assets---Governmental Activities		$ 17,999,090

- The notes to the financial statements are an integral part of this statement. -

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Governmental Funds
For the Fiscal Year Ended June 30, 2003

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	General Fund	Motor License Fund	Tobacco Settlement Fund	Nonmajor Funds	Total
REVENUES:					
Taxes, net of refunds	$ 19,553,998	$ 1,705,082	$ -	$ 210,090	$ 21,469,170
Licenses and fees	250,264	842,466	-	257,286	1,350,016
Intergovernmental	12,943,624	1,379,786	108,312	143,994	14,575,716
Charges for sales and services	1,796,974	95,911	-	126,957	2,019,842
Investment income	114,990	26,500	37,319	70,982	249,791
Lease rental principal and interest	-	-	-	329	329
Other	401,219	2,455	426,545	7,370	837,589
TOTAL REVENUES	35,061,069	4,052,200	572,176	817,008	40,502,453
EXPENDITURES:					
Current:					
Direction and supportive services	854,434	48,400	543	11,417	914,794
Protection of persons and property	2,941,339	514,100	79,960	347,444	3,882,843
Health and human services	19,549,141	-	473,801	487,907	20,510,849
Public education	10,174,386	1,068	-	22,622	10,198,076
Recreation and cultural enrichment	324,186	3,504	-	144,230	471,920
Economic development	984,334	-	100,000	423,250	1,507,584
Transportation	407,328	3,205,830	-	322,627	3,935,785
Capital outlay	17,698	39,154	-	350,228	407,080
Debt service:					
Principal retirement	-	-	-	998,396	998,396
Interest and fiscal charges	-	-	-	313,681	313,681
TOTAL EXPENDITURES	35,252,846	3,812,056	654,304	3,421,802	43,141,008
REVENUES OVER (UNDER) EXPENDITURES	(191,777)	240,144	(82,128)	(2,604,794)	(2,638,555)
OTHER FINANCING SOURCES (USES):					
Bonds issued	-	-	-	1,324,167	1,324,167
Refunding bonds issued	-	-	-	837,991	837,991
Transfers in—Note H	425,875	-	-	1,303,664	1,729,539
Transfers out—Note H	(903,078)	(60,243)	(34,682)	(179,730)	(1,177,733)
Payment to refunded bond escrow agent	-	-	-	(837,991)	(837,991)
Capital lease and installment purchase obligations	3,851	805	-	-	4,656
NET OTHER FINANCING SOURCES (USES)	(473,352)	(59,438)	(34,682)	2,448,101	1,880,629
NET CHANGE IN FUND BALANCES	(665,129)	180,706	(116,810)	(156,693)	(757,926)
FUND BALANCES, JULY 1, 2002	3,022,842	712,427	935,419	1,707,630	6,378,318
FUND BALANCES, JUNE 30, 2003	$ 2,357,713	$ 893,133	$ 818,609	$ 1,550,937	$ 5,620,392

- The notes to the financial statements are an integral part of this statement. -

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2003

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

The governmental funds Statement of Revenues, Expenditures and Changes in Fund Balances reports events and activities that affect, on a current financial resources basis, fund balance changes during the fiscal year. The governmental activities column on the government-wide Statement of Activities conveys information on an economic basis. In effect, the government-wide statement demonstrates all expenses and revenues related to the operation of the government for the fiscal year ended June 30, 2003. Expenses such as depreciation and certain claims and judgments and revenues that may not be collected for several months after fiscal-year end are included in the government-wide statement but are not included in the governmental funds statement. This reconciliation reports all economic events during the fiscal year that appear on the government-wide Statement of Activities but are not included in the governmental funds statement.

Net change in total fund balances of governmental funds.....		$ (757,926)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported as expenditures in governmental funds; however, in the government-wide statements capital outlays are reported as increases in capital assets (not expenses) and the cost of general capital assets is allocated over their estimated useful lives and reported as depreciation expense. All depreciation is reported as part of functional program expenses. (Refer to Note E) The current amounts were:		
Capital asset acquisitions (net).....	$ 2,052,376	
Depreciation expense.....	(804,176)	
Capital lease, installment purchase and related payments.....	562,650	
Net excess of capital asset additions/installment purchase payments over depreciation expense.....		1,810,850
Bond proceeds provide current financial resources to governmental funds; however, issuing bonds increases general long-term liabilities in the statement of net assets. During the current fiscal year, proceeds were received from:		
General obligation bonds, including a premium of $107,848.....	$ (1,324,167)	
Refunding bonds, including a premium of $87,059.....	(837,991)	
Total bond proceeds.....		(2,162,158)
Repayment of general long-term liabilities is reported as an expenditure in governmental funds, but the repayment reduces general long-term liabilities in the statement of net assets. During the current fiscal year, these amounts consisted of:		
Bond principal retirement.....	$ 468,391	
Payments to the refunded bond escrow agent.....	837,991	
Total long-term debt repayment.....		1,306,382
Internal service funds charge the costs of certain goods and services to individual funds. The net loss of the internal service funds is reported as part of governmental activities expenses.....		2,818
Certain tax and other revenues due by fiscal year end will not be collected for several months or years after fiscal year end; they are not considered available revenues in the governmental funds, but they are reported as revenues in the statement of activities.		85,429
Certain additional expenses are reported in the statement of activities because they are due and payable and are funded with future economic resources rather than current available financial resources.....		(21,938)
Net change in governmental net assets in the statement of activities.....		$ 263,457

- The notes to the financial statements are an integral part of this statement. -

COMMONWEALTH OF PENNSYLVANIA (Expressed in Thousands)	Enterprise Funds						
	Unemployment Compensation Fund	State Workmen's Insurance Fund (Dec. 31, 2002)	State Lottery Fund	Tuition Payment Fund	Nonmajor Funds	Total	Internal Service Funds
ASSETS							
Current assets:							
Cash	$ -	$ 3,274	$ 235	$ 915	$ 15,810	$ 20,234	$ 1,974
Cash with fiscal agents—Note D	1,378,778	-	-	-	-	1,378,778	-
Temporary investments—Note D	163	585,292	405,769	193,300	259,548	1,444,072	58,943
Receivables (net):							
Unemployment assessments	388,341	-	-	-	-	388,341	-
Accounts	22,556	25,326	23,647	-	3,241	74,770	5
Accrued interest	-	10,537	-	1,827	1,391	13,755	-
Loans—Note G	-	-	-	-	41,601	41,601	-
Other	-	-	13	-	22	35	652
Due from other funds—Note H	3,104	200	-	-	2,475	5,779	21,612
Due from pension trust funds	5	-	-	-	-	5	18
Due from component units—Note H	371	-	-	-	3	374	1,432
Due from Federal government	56,639	-	433	-	5	57,077	-
Due from political subdivisions	7,629	-	-	-	-	7,629	258
Due from other governments	17,644	-	-	-	-	17,644	-
Inventory	-	-	-	-	161,649	161,649	11,235
Prepaid expenses	-	-	-	-	1,772	1,772	-
Total current assets	1,875,230	624,629	430,097	196,042	487,517	3,613,515	96,129
Noncurrent assets:							
Long-term investments	-	1,315,687	13,873	504,010	-	1,833,570	-
Receivables (net):							
Loans—Note G	-	-	-	-	192,322	192,322	-
Non-depreciable capital assets—Note E:							
Land	-	-	-	-	323	323	6
Construction in progress	-	-	-	-	6,708	6,708	-
Depreciable capital assets—Note E:							
Land improvements	-	-	-	-	-	-	291
Buildings and building improvements	-	-	-	-	25,727	25,727	3,996
Machinery and equipment	-	2,758	424	-	68,061	71,243	95,035
Less: accumulated depreciation	-	(1,256)	(336)	-	(59,988)	(61,580)	(50,546)
Net depreciable capital assets	-	1,502	88	-	33,800	35,390	48,776
Other assets	-	375	-	-	-	375	97
Total noncurrent assets	-	1,317,564	13,961	504,010	233,153	2,068,688	48,879
TOTAL ASSETS	1,875,230	1,942,193	444,058	700,052	720,670	5,682,203	145,008
LIABILITIES							
Current liabilities:							
Accounts payable and accrued liabilities	206,119	8,351	219,382	7,491	94,606	535,949	29,495
Tuition benefits payable—Note F	-	-	-	48,800	-	48,800	-
Securities lending obligations	30	510,162	75,662	86,695	45,984	718,533	10,814
Due to other funds—Note H	2	3,948	284	20	24,301	28,555	383
Due to pension trust funds	-	-	-	-	72	72	-
Due to component units	-	-	-	-	-	-	1
Due to political subdivisions	-	-	2,478	-	-	2,478	-
Due to other governments	5,452	53	650	2	495	6,652	49
Deferred revenue	-	71,665	3,230	-	2,301	77,196	8
Compensated absences	-	-	-	6	7,060	7,066	-
Other liabilities	-	8,482	-	-	3,225	11,707	14,300
Total current liabilities	211,603	602,661	301,686	143,014	178,044	1,437,008	55,050
Noncurrent liabilities:							
Advances from other funds—Note H	-	1,626	-	-	85,000	86,626	-
Self insurance	-	-	-	-	14,693	14,693	-
Tuition benefits payable—Note F	-	-	-	609,341	-	609,341	-
Insurance loss liability—Note F	-	1,039,532	-	-	733	1,040,265	-
Compensated absences	-	-	-	49	27,038	27,087	-
Total noncurrent liabilities	-	1,041,158	-	609,390	127,464	1,778,012	-
TOTAL LIABILITIES	211,603	1,643,819	301,686	752,404	305,508	3,215,020	55,050
NET ASSETS							
Invested in capital assets, net of related debt	-	1,502	88	-	40,831	42,421	48,781
Restricted for:							
Transportation	-	-	-	-	31,742	31,742	-
Unemployment/worker's compensation	1,663,627	296,872	-	-	-	1,960,499	-
Elderly programs	-	-	142,284	-	-	142,284	-
Other purposes—Note C	-	-	-	-	361,993	361,993	41,177
Unrestricted (deficit)	-	-	-	(52,352)	(19,404)	(71,756)	-
TOTAL NET ASSETS	$1,663,627	$ 298,374	$ 142,372	$ (52,352)	$ 415,162	$ 2,467,183	$ 89,958

- The notes to the financial statements are an integral part of this statement. -

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
Proprietary Funds

For the Fiscal Year Ended June 30, 2003

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Enterprise Funds						
	Unemployment Compensation Fund	State Workmen's Insurance Fund (Dec. 31, 2002)	State Lottery Fund	Tuition Payment Fund	Nonmajor Funds	Total	Internal Service Funds
OPERATING REVENUES:							
Sales and services	$ 1,532,213	$ 180,593	$ 2,100,096	$ 234,334	$ 1,031,561	$ 5,078,797	$ 216,023
Investment income	103,601	97,023	-	27,311	4,463	232,398	-
Interest on loans	-	-	-	126	8,296	8,422	-
Other	906,842	71	68,522	-	1,015	976,450	-
TOTAL OPERATING REVENUES	2,542,656	277,687	2,168,618	261,771	1,045,335	6,296,067	216,023
OPERATING EXPENSES:							
Cost of sales and services	3,470,257	211,806	1,762,311	288,118	957,831	6,690,323	203,704
Interest expense	-	5,096	-	-	(73)	5,023	-
Depreciation	-	359	20	-	4,619	4,998	12,196
Provision for uncollectible accounts	-	8,222	-	-	4,915	13,137	221
Other	-	-	64,975	-	-	64,975	-
TOTAL OPERATING EXPENSES	3,470,257	225,483	1,827,306	288,118	967,292	6,778,456	216,121
OPERATING INCOME (LOSS)	(927,601)	52,204	341,312	(26,347)	78,043	(482,389)	(98)
NONOPERATING REVENUES (EXPENSES):							
Investment income	-	-	15,139	-	4,070	19,209	840
Other revenues	-	-	-	-	7,693	7,693	1
Other expenses	-	-	-	-	(134)	(134)	(3,561)
NONOPERATING REVENUES, NET	-	-	15,139	-	11,629	26,768	(2,720)
INCOME (LOSS) BEFORE TRANSFERS	(927,601)	52,204	356,451	(26,347)	89,672	(455,621)	(2,818)
TRANSFERS:							
Transfers out—Note H	-	-	(395,000)	-	(156,807)	(551,807)	-
TOTAL TRANSFERS	-	-	(395,000)	-	(156,807)	(551,807)	-
INCREASE/(DECREASE) IN NET ASSETS	(927,601)	52,204	(38,549)	(26,347)	(67,135)	(1,007,428)	(2,818)
TOTAL NET ASSETS, JULY 1, 2002 (restated)—Note B	2,591,228	246,170	180,921	(26,005)	482,297	3,474,611	92,776
TOTAL NET ASSETS, JUNE 30, 2003	$ 1,663,627	$ 298,374	$ 142,372	$ (52,352)	$ 415,162	$ 2,467,183	$ 89,958

- The notes to the financial statements are an integral part of this statement. -

STATEMENT OF CASH FLOWS
Proprietary Funds

For the Fiscal Year Ended June 30, 2003

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Enterprise Funds						
	Unemployment Compensation Fund	State Workmen's Insurance (Dec. 31, 2002) Fund	State Lottery Fund	Tuition Payment Fund	Nonmajor Funds	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:							
Receipts from employers	$ 1,455,651	$ 201,981	$ -	$ -	$ -	$ 1,657,632	$ -
Receipts from customers		-	2,099,463	234,550	1,038,334	3,372,347	231,182
Receipts from borrowers		-	-	-	7,455	7,455	-
Payments to programs for the elderly		-	(497,481)	-	-	(497,481)	-
Payments to prize winners		-	(1,124,598)	-	-	(1,124,598)	-
Payments to participants		-	-	(26,489)	-	(26,489)	-
Payments to claimants	(3,420,318)	(205,747)	-	-	(2,273)	(3,628,338)	-
Payments to borrowers		-	-	-	4,409	4,409	-
Payments to suppliers		-	(174,115)	-	(970,887)	(1,145,002)	(202,231)
Other receipts	888,484	71	68,522	-	953	958,030	-
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	(1,076,183)	(3,695)	371,791	208,061	77,991	(422,035)	28,951
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES							
Net borrowings (repayments) under advances from other funds	-	(177)	-	(50)	82,000	81,773	-
Transfers out	-	-	(395,000)	-	(156,808)	(551,808)	-
NET CASH USED FOR NON-CAPITAL FINANCING ACTIVITIES	-	(177)	(395,000)	(50)	(74,808)	(470,035)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:							
Acquisition and construction of capital assets	-	(532)	-	-	(16,595)	(17,127)	(15,870)
Loss on disposition of capital assets					136	136	3,560
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	-	(532)	-	-	(16,459)	(16,991)	(12,310)
CASH FLOWS FROM INVESTING ACTIVITIES:							
Purchase of Investments	(5,604)	(1,027,530)	(1,073,293)	(13,205,133)	(899,346)	(16,210,906)	(271,936)
Sales and maturities of investments	5,647	929,125	1,012,890	12,931,995	865,756	15,745,413	245,066
Investment income	103,601	61,029	10,077	12,665	7,706	195,078	1,061
Change in securities lending obligations	30	41,108	73,738	52,356	41,090	208,322	10,814
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	103,674	3,732	23,412	(208,117)	15,206	(62,093)	(14,995)
NET INCREASE (DECREASE) IN CASH	(972,509)	(672)	203	(106)	1,930	(971,154)	1,646
CASH AT JULY 1, 2002	2,351,285	3,946	32	1,021	13,880	2,370,164	328
CASH AT JUNE 30, 2003	$ 1,378,777	$ 3,274	$ 235	$ 915	$ 15,810	$ 1,399,010	$ 1,974
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES							
Operating income (loss)	$ (927,601)	$ 52,203	$ 341,311	$ (26,335)	$ 78,039	$ (482,383)	$ (98)
Depreciation and amortization	-	359	20	-	4,620	4,999	12,196
Provision for uncollectible accounts	-	8,222	-	-	4,915	13,137	221
Non-operating revenues (expenses)	-	-	-	-	7,558	7,558	(3,560)
Reclassification of investment income	(103,601)	(97,022)	-	(27,311)	(4,462)	(232,396)	-
Change in assets and liabilities:							
Accounts receivable	(5,477)	(15,192)	(6,017)	80	(1,913)	(28,519)	(657)
Unemployment compensation assessments receivable	(69,086)	-	-	-	-	(69,086)	-
Inventory	-	-	-	-	(22,011)	(22,011)	412
Due from other funds	(441)	(70)	-	-	(91)	(602)	16,655
Due from component units	28	-	-	-	57	85	(1,094)
Due from other governments	(19,944)	-	3,505	-	64	(16,375)	(75)
Other current assets	-	3,524	-	-	2,118	5,642	(90)
Accounts payable and accrued liabilities	50,514	3,259	32,676	2,520	(2,736)	86,233	5,018
Tuition benefits payable	-	-	-	259,050	-	259,050	-
Due to other funds	2	1,311	242	4	3,493	5,052	8
Due to political subdivisions	-	-	(2,475)	-	-	(2,475)	7
Due to component units	(577)	53	650	(2)	102	226	7
Due to other governments		-	-	-	(141)	(141)	1
Deferred revenue	-	36,651	1,879	-	118	38,648	-
Insurance loss liability	-	7,026	-	-	733	7,759	-
Other liabilities	-	(4,019)	-	55	7,528	3,564	-
Total Adjustments	(148,582)	(55,898)	30,480	234,396	(48)	60,348	29,049
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$ (1,076,183)	$ (3,695)	$ 371,791	$ 208,061	$ 77,991	$ (422,035)	$ 28,951
Increase (decrease) in fair value of investments during the fiscal year	$ -	$ 88,292	$ 1,484	$ 15,605	$ (716)	$ 104,665	$ (222)

There were no other material investing, capital or financing activities that did not result in cash receipts or cash payments during the fiscal year.

- The notes to the financial statements are an integral part of this statement. -

STATEMENT OF FIDUCIARY NET ASSETS
Fiduciary Funds and Similar Component Units

June 30, 2003

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Fund: INVEST Program for Local Governments (December 31, 2002)	Private Purpose Trust Fund: Tuition Account Investment Program	Agency Funds
ASSETS				
Cash—Note D	$ 5,866	$ -	$ 22	$ 9,232
Cash with fiscal agents—Note D	-	-	-	66,017
Temporary investments—Note D	7,386,768	1,034,837	1,421	1,420,189
Long-term investments—Note D	63,333,401	-	48,135	1,042,126
Receivables, net:				
Taxes—Note G	-	-	-	23,911
Accounts	-	-	178	446,644
Accrued interest	246,457	377	18	819
Loans—Note G	-	-	-	4,909
Pension contributions	235,613	-	-	-
Investment proceeds	1,271,083	-	23	-
Other	4	-	-	139,595
Due from other funds—Note H	3,280	-	-	-
Due from political subdivisions	361	-	-	-
Due from other governments	3,871	-	-	-
Advances to other funds—Note H	-	-	-	100,000
Depreciable capital assets:				
Capital assets—Note E	11,349	-	-	-
Less: accumulated depreciation	(8,921)	-	-	-
Net depreciable capital assets	2,428	-	-	-
Other assets	-	-	-	587,486
TOTAL ASSETS	72,489,132	1,035,214	49,797	3,840,928
LIABILITIES				
Liabilities:				
Accounts payable and accrued liabilities	78,088	915	59	22,798
Investment purchases payable	3,185,080	-	176	-
Securities lending obligations	4,706,928	-	-	104,150
Due to other funds—Note H	1,091	-	-	-
Due to political subdivisions	-	-	-	294,957
Due to other governments	-	-	-	17
Deferred revenue	-	-	-	1,149
Other liabilities	188,349	-	-	3,417,857
TOTAL LIABILITIES	8,159,536	915	235	3,840,928
NET ASSETS:				
Held in trust for:				
Pension and other employee benefits	63,195,938	-	-	-
Healthcare benefits	171,539	-	-	-
Employee salary deferrals	962,119	-	-	-
INVEST Program participants	-	1,034,299	-	-
Tuition Accounts Program participants	-	-	49,562	-
TOTAL NET ASSETS	$ 64,329,596	$ 1,034,299	$ 49,562	$ -

- The notes to the financial statements are an integral part of this statement. -

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Fiduciary Funds and Similar Component Units *For the Fiscal Year Ended June 30, 2003*

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Fund: INVEST Program for Local Governments (December 31, 2002)	Private Purpose Trust Fund: Tuition Account Investment Program
ADDITIONS:			
Pension contributions:			
Employer	$ 167,287	$ -	$ -
Employee	1,324,133	-	-
Total contributions	1,491,420	-	-
Investment income:			
Net depreciation in fair value of investments	(3,507,056)	-	-
Interest income	1,007,383	21,264	3,982
Dividend income	592,750	-	-
Rental and other income	415,977	-	-
Total investment activity income	(1,490,946)	21,264	3,982
Less: investment expenses			
Investment activity expense	(333,329)	-	(131)
Net investment earnings	(1,824,275)	21,264	3,851
Securities lending activities:			
Income	70,746	-	-
Expenses	(47,310)	-	-
Total securities lending income	23,436	-	-
Total net investment income	(1,800,839)	21,264	3,851
Share transactions (at net asset value of $1.00 per share):			
Shares purchased	-	2,623,913	48,485
Shares issued in lieu of cash distributions	-	20,043	35
Shares redeemed	-	(2,935,996)	(2,771)
Net increase in net assets from share transactions	-	(292,040)	45,749
TOTAL ADDITIONS	(309,419)	(270,776)	49,600
DEDUCTIONS:			
Benefit payments	4,534,110	-	-
Refunds of contributions	18,103	-	-
Transfers to other plans	27,543	-	-
Administrative expenses	62,322	676	-
Other expenses	14,151	-	-
Distributions to participants	-	21,500	38
TOTAL DEDUCTIONS:	4,656,229	22,176	38
CHANGE IN PLAN NET ASSETS HELD IN TRUST FOR			
Pension and other employee benefits	(5,013,786)	-	-
Healthcare benefits	48,138	-	-
INVEST program participants	-	(292,952)	-
Tuition Account Program participants	-		49,562
Net assets, July 1, 2002	69,295,244	1,327,251	-
Net assets, June 30, 2003	$ 64,329,596	$ 1,034,299	$ 49,562

- The notes to the financial statements are an integral part of this statement. -

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STATEMENT OF NET ASSETS
Discretely Presented Nonfiduciary Component Units

COMMONWEALTH OF PENNSYLVANIA (Expressed in Thousands)	State Public School Building Authority	Philadelphia Shipyard Development Corporation (December 31, 2002)	Ben Franklin/ IRC Partnership	Ben Franklin Technology Development Fund	Insurance Fraud Prevention Authority	Pennsylvania Higher Educational Facilities Authority	Patient Safety Trust Authority
ASSETS							
Current assets:							
Cash—Note D	$ -	$ 26,702	$ -	$ -	$ 231	$ -	$ -
Temporary investments—Note D	17,623	-	-	19,661	3,012	-	5,832
Receivables:							
Accounts	2	-	-	-	161	-	-
Accrued interest	221	26	-	-	-	-	-
Loans—Note G	2,367	-	-	11,328	-	-	-
Lease rentals—Note G	-	-	-	-	-	-	-
Other	-	-	-	-	14	-	-
Due from primary government—Note H	-	-	-	-	-	-	-
Due from component units—Note H	-	-	-	-	-	-	-
Due from Federal government	-	-	-	-	-	-	-
Due from other governments	-	7,259	-	-	128	-	-
Inventory	-	-	-	-	-	-	-
Prepaid and deferred expenses	-	38	-	-	12	-	-
Total current assets	20,213	34,025	-	30,989	3,558	-	5,832
Noncurrent assets:							
Long-term investments—Note D	8,867	-	-	-	-	-	-
Receivables (net):							
Loans—Note G	4,814	30,000	-	8,600	-	-	-
Lease rentals—Note G	-	-	-	-	-	-	-
Non-depreciable capital assets—Note E:							
Land	-	161	-	-	-	-	-
Construction in progress	-	-	-	-	-	-	-
Depreciable capital assets—Note E:							
Land improvements	-	-	-	-	-	-	-
Buildings and building improvements	-	-	-	-	-	-	-
Machinery and equipment	544	-	-	-	67	-	-
Infrastructure	-	-	-	-	-	-	-
Library books	-	-	-	-	-	-	-
Other capital assets	-	-	-	-	-	-	-
Less: accumulated depreciation	(379)	-	-	-	(33)	-	-
Net depreciable capital assets	165	-	-	-	34	-	-
Other assets	-	-	-	-	2	-	-
Total noncurrent assets	13,846	30,161	-	8,600	36	-	-
TOTAL ASSETS	34,059	64,186	-	39,589	3,594	-	5,832
LIABILITIES							
Current liabilities:							
Accounts payable and accrued liabilities	586	3,875	-	2,297	73	-	114
Securities lending obligations	-	-	-	-	-	-	1,070
Due to primary government—Note H	-	-	-	-	-	-	-
Due to component units—Note H	-	-	-	-	-	-	-
Due to other governments	-	-	-	-	-	-	1
Interest payable	-	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-	-
Notes payable—Note J	-	-	-	-	-	-	-
Bonds payable—Note K	-	-	-	-	-	-	-
Revenue bonds payable—Note K	-	-	-	-	-	-	-
Compensated absences	41	-	-	-	-	-	-
Other liabilities	76	-	-	-	-	-	-
Total current liabilities	703	3,875	-	2,297	73	-	1,185
Non-current liabilities:							
Deferred revenue	-	-	-	-	-	-	-
Demand revenue bonds payable—Note J	-	-	-	-	-	-	-
Notes payable—Note J	-	-	-	-	-	-	-
Bonds payable—Note K	-	-	-	-	-	-	-
Revenue bond payable—Note K	-	-	-	-	-	-	-
Capital lease obligation	-	30,000	-	-	-	-	-
Compensated absences	295	-	-	-	-	-	-
Other liabilities	769	-	-	-	-	-	-
Total non-current liabilities	1,064	30,000	-	-	-	-	-
TOTAL LIABILITIES	1,767	33,875	-	2,297	73	-	1,185
NET ASSETS—Note C:							
Invested in capital assets, net of related debt	165	161	-	-	34	-	-
Restricted for:							
Capital projects	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-
Other purposes	32,127	30,150	-	37,292	3,487	-	4,647
Unrestricted	-	-	-	-	-	-	-
TOTAL NET ASSETS	$ 32,292	$ 30,311	$ -	$ 37,292	$ 3,521	$ -	$ 4,647

- The notes to the financial statements are an integral part of this statement. -

Port of Pittsburgh Commission	Pennsylvania Turnpike Commission (May 31, 2003)	Pennsylvania Industrial Development Authority	Pennsylvania Housing Finance Agency	Pennsylvania Higher Education Assistance Agency	Pennsylvania Infrastructure Investment Authority	State System of Higher Education	Philadelphia Regional Port Authority	Total
$ 3	$ 131,761	$ 2,543	$ 96,726	$ 69,179	$ 6,446	$ 33,424	$ 5,293	$ 372,308
1,811	173,705	121,027	807,935	155,865	403,560	326,692	-	2,036,723
60	21,737	-	-	9,531	-	55,637	939	88,067
7	5,427	3,578	-	90,943	1,956	-	-	102,158
109	-	80,129	71,683	670,587	93,986	6,895	-	937,084
-	-	634	-	-	-	-	-	634
-	-	-	20,309	-	-	-	-	20,323
-	7,522	-	-	-	-	-	-	7,522
-	-	-	-	-	76	-	-	76
-	-	-	-	6,504	729	-	-	7,233
-	-	-	-	-	-	-	-	7,387
-	12,275	-	-	-	-	12,307	-	24,582
-	-	-	24,483	28,700	17,716	6,920	698	78,567
1,990	352,427	207,911	1,021,136	1,031,309	524,469	441,875	6,930	3,682,664
-	665,313	157,843	470,369	432,237	-	579,443	-	2,314,072
-	-	462,221	2,500,461	3,554,300	1,239,999	30,236	-	7,830,631
-	-	18,151	-	-	-	-	-	18,151
-	123,955	-	-	2,946	-	14,266	-	141,328
-	431,702	-	-	-	-	97,695	10,822	540,219
-	53,486	-	-	-	-	115,540	-	169,026
-	588,153	-	-	63,097	-	761,179	105,951	1,518,380
2,108	271,279	-	-	20,298	-	187,085	19,221	500,602
-	3,749,954	-	-	-	-	-	-	3,749,954
-	-	-	-	-	-	75,901	-	75,901
-	-	-	-	69,188	-	-	2,164	71,352
(326)	(2,510,943)	-	-	(81,449)	-	(441,960)	(64,859)	(3,099,949)
1,782	2,151,929	-	-	71,134	-	697,745	62,477	2,985,266
-	67,158	14,277	-	53,460	-	25,852	7,623	168,372
1,782	3,440,057	652,492	2,970,830	4,114,077	1,239,999	1,445,237	80,922	13,998,039
3,772	3,792,484	860,403	3,991,966	5,145,386	1,764,468	1,887,112	87,852	17,680,703
59	47,963	1,609	2,686	91,280	5,822	136,719	3,367	296,450
-	-	-	-	-	-	-	-	1,070
-	4,893	7	-	-	116	-	-	5,016
-	-	-	-	-	22	-	-	22
-	-	-	-	-	5	-	-	6
-	34,829	15,118	43,977	16,959	-	-	-	110,883
-	12,549	-	-	4,032	-	33,778	10	50,369
-	-	-	-	210,708	-	-	-	210,708
-	-	-	-	-	-	20,327	-	20,327
-	42,370	22,120	78,385	1	18,415	155	2,075	163,521
47	11,893	-	-	5,010	-	17,443	-	34,434
-	-	-	887	-	-	61,617	299	62,879
106	154,497	38,854	125,935	327,990	24,380	270,039	5,751	955,685
-	-	-	-	-	-	944	309	1,253
-	-	-	-	3,471,000	-	-	-	3,471,000
-	-	-	-	548,569	-	-	3,149	551,718
-	-	-	-	-	-	505,333	-	505,333
-	2,084,936	529,029	2,960,289	376,529	113,375	69,170	48,530	6,181,858
2,000	-	-	-	-	-	-	-	32,000
-	-	-	-	6,944	-	62,228	552	70,019
-	19,049	15,714	303,512	114,863	-	469,130	5,820	928,857
2,000	2,103,985	544,743	3,263,801	4,517,905	113,375	1,106,805	58,360	11,742,038
2,106	2,258,482	583,597	3,389,736	4,845,895	137,755	1,376,844	64,111	12,697,723
(218)	580,280	-	-	($2,160)	-	301,686	17,621	897,569
-	700,913	-	-	-	-	31,662	-	732,575
-	-	-	82,938	231,844	-	-	5,730	320,512
1,884	252,809	-	519,292	69,807	$1,626,713	176,920	390	2,755,518
	-	276,806	-	-	-	-	-	276,806
$ 1,666	$ 1,534,002	$ 276,806	$ 602,230	$ 299,491	$ 1,626,713	$ 510,268	$ 23,741	$ 4,982,980

- The notes to the financial statements are an integral part of this statement. -

STATEMENT OF ACTIVITIES
Discretely Presented Nonfiduciary Component Units

COMMONWEALTH OF PENNSYLVANIA (Expressed in Thousands)	State Public School Building Authority	Philadelphia Shipyard Development Corporation (December 31, 2002)	Ben Franklin/ IRC Partnership	Ben Franklin Technology Development Fund	Insurance Fraud Prevention Authority	Pennsylvania Higher Educational Facilities Authority	Patient Safety Trust Authority
Expenses	$ 2,449	$ 46,135	$ 16	$ 50,368	$ 10,772	$ 1,053	$ 214
Program revenues:							
Charges for goods and services	1,372	-	-	709	9,606	1,053	-
Operating grants and contributions	736	22,995	-	53,397	280	-	4,861
Capital grants and contributions	-	-	-	-	-	-	-
Total program revenues	2,108	22,995	-	54,106	9,886	1,053	4,861
Net (expense) revenue	(341)	(23,140)	(16)	3,738	(886)	-	4,647
General revenues:							
Taxes and other general revenues	2	-	-	-	-	-	-
Change in net assets	(339)	(23,140)	(16)	3,738	(886)	-	4,647
Net assets, July 1, 2002 (restated)—Note B	32,631	53,451	16	33,554	4,407	-	-
Net assets, June 30, 2003	$ 32,292	$ 30,311	$ -	$ 37,292	$ 3,521	$ -	$ 4,647

- The notes to the financial statements are an integral part of this statement. -

Port of Pittsburgh Commission	Pennsylvania Turnpike Commission (May 31, 2003)	Pennsylvania Industrial Development Authority	Pennsylvania Housing Finance Agency	Pennsylvania Higher Education Assistance Agency	Pennsylvania Infrastructure Investment Authority	State System of Higher Education	Philadelphia Regional Port Authority	Total
$ 931	$ 573,550	$ 35,182	$ 472,565	$ 757,399	$ 49,421	$ 1,442,108	$ 25,536	$ 3,467,699
30	411,888	20,848	202,831	349,608	23,408	750,046	4,118	1,775,517
1,016	90,787	7,522	293,136	440,245	21,078	747,330	8,646	1,692,029
-	7,135	-	-	-	118,074	7,251	11,993	144,453
1,046	509,810	28,370	495,967	789,853	162,560	1,504,627	24,757	3,611,999
115	(63,740)	(6,812)	23,402	32,454	113,139	62,519	(779)	144,300
-	46,288	-	-	-	-	-	415	46,705
115	(17,452)	(6,812)	23,402	32,454	113,139	62,519	(364)	191,005
1,551	1,551,454	283,618	578,828	267,037	1,513,574	447,749	24,105	4,791,975
$ 1,666	$ 1,534,002	$ 276,806	$ 602,230	$ 299,491	$ 1,626,713	$ 510,268	$ 23,741	$ 4,982,980

- The notes to the financial statements are an integral part of this statement. -

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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The basic financial statements of the Commonwealth of Pennsylvania have been prepared in accordance with accounting principles generally accepted in the United States applicable to governments. The Governmental Accounting Standards Board (GASB) establishes accounting and financial reporting requirements for governments.

Government-Wide Financial Statements: Government-wide financial statements report financial position and results of activities for the Commonwealth of Pennsylvania as a whole. Amounts are separated between governmental and business-type activities within the primary government (defined below) and nonfiduciary component units. The Statement of Net Assets reports all economic resources (assets) and all liabilities for the primary government of the Commonwealth. The Statement of Activities reports the total cost of providing governmental services, by function, net of related program revenues, and, after including general revenues, reports whether the total net assets of the government increased or decreased during the fiscal year ended June 30, 2003. The government-wide financial statements do not include any fiduciary fund assets, liabilities or activities for the primary government or component units (defined below) that are fiduciary in nature. Governmental activities within government-wide financial statements include specific balances and transactions related to Internal Service Funds that are reported as proprietary funds in fund financial statements. Business-type activities include information for all Enterprise Funds.

Financial Reporting Entity: Government-wide financial statements include separate columns and/or rows for the primary government and discretely presented nonfiduciary component units. Fiduciary component unit balances are reported in the Statement of Fiduciary Net Assets and combining statements for all nonfiduciary component units are presented following fund financial statements as a Statement of Net Assets and a Statement of Activities.

Primary Government: For financial reporting purposes, the Commonwealth of Pennsylvania is a primary government (PG). The PG includes all publicly elected members of the executive, legislative and judicial branches of the Commonwealth. The PG also includes all Commonwealth departments, agencies, boards and organizations that are not legally separate.

Component Units: In addition to the PG, the financial reporting entity includes blended and discretely presented component units. Component units include all legally separate organizations for which the PG is financially accountable, and other organizations for which the nature and significance of their relationship with the PG are such that exclusion would cause the financial statements to be misleading or incomplete. The criteria used to define financial accountability include appointment of a voting majority of an organization's governing body and (1) the ability of the PG to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the PG. Fiscal dependency is also considered. The following organizations are included in the financial reporting entity as component units:

Blended Component Unit

State Employees' Retirement System (SERS) (Fiduciary Funds) — The SERS is a public employee retirement system that covers Commonwealth employees. The PG appoints all voting board members and, on a very limited basis, imposes its will on the SERS. The PG uses the SERS to provide pension benefits to PG employees. The PG makes essentially all employer contributions to the SERS; PG employees make almost all of the employee contributions to the SERS (virtually all PG employees are required to join the SERS). The PG is responsible for all of the SERS pension obligations. The SERS is a blended component unit because it provides services and benefits almost exclusively to the PG.

Discretely Presented Component Units

State Public School Building Authority (SPSBA) and Pennsylvania Higher Educational Facilities Authority (PHEFA) - The SPSBA and the PHEFA issue limited obligation revenue bonds, the proceeds of which are used to finance the construction of facilities for school districts and public/ private colleges and universities. These bonds are repaid solely from lease/loan payments from the schools. The PG appoints all nine voting members of the SPSBA and the HEFA governing boards; nine high-ranking members of the PG serve as ex-officio members of each board. As a result, the PG is able to impose its will. The PG Department of Education approves the SPSBA projects (which indicates imposition of will and fiscal dependency). Neither the PG nor the Authorities are obligated for debt service payments (beyond lease/loan payments from schools).

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Ben Franklin/IRC Partnership (Partnership) — The Partnership assists business through interaction of technology development, modernization and training programs. Industrial resource centers and technology centers, established through the Partnership, also increase the competitiveness of businesses. Operations of the Partnership are funded by state appropriations and private contributions; the Partnership may not issue debt. The Partnership works closely with the Department of Community and Economic Development (DCED). The PG appoints all 15 voting members of the governing board. All Partnership expenditures must be appropriated annually by the General Assembly. State law abolished the Partnership effective June 30, 2003.

Ben Franklin Technology Development Authority (PTDA) - The PTDA is very similar to the Ben Franklin/IRC Partnership (above) and superseded and replaced it as of June 30, 2003. The PTDA includes a PTDA Revolving Loan Program. The PG appoints all 21 voting members of the governing board. The PG may appropriate funding for the PTDA from the General Fund.

Port of Pittsburgh Commission (PPC) – The PPC promotes economic development throughout waterways in southwestern Pennsylvania by constructing and/or financing transportation and recreation facilities. The PG appoints all 15 voting members of the governing board and can remove board members at will. The PG provides funding for the PPC but is not required to do so.

Insurance Fraud Prevention Authority (IFPA) - The IFPA assists in the prevention, discovery, investigation and prosecution of insurance fraud. The IFPA is funded through assessments paid by the insurance industry and through certain criminal and civil fines, penalties and awards. The PG appoints six of seven voting members of the IFPA governing board; the Attorney General serves ex-officio as one of these six members. A significant portion of IFPA expenditures funds the Section on Insurance Fraud in the Office of Attorney General; this indicates a financial benefit/burden. The IFPA is not fiscally dependent on the PG.

Philadelphia Shipyard Development Corporation (PSDC) - The PSDC was created as a nonprofit corporation to assist the PG and other governmental entities in financing a shipbuilding facility at the former Philadelphia Naval Shipyard. The PSDC obtains funding from the PG and a variety of other governmental sources to fund development, construction and job recruitment and training costs. The PG appoints three of five voting board members and provides a significant portion of funding for the PSDC. For the purposes of this report, the PSDC has a December 31, 2002 fiscal year end.

Philadelphia Regional Port Authority (PRPA) – The PRPA operates a port facility and manages port-related activities to promote commerce and economic development in southeastern Pennsylvania. The PRPA charges rental and other fees to port users and obtains other funding from the PG. The PRPA also issues revenue bonds to finance its activities. The PG appoints all eleven voting board members and can remove board members at will. The PG provides operating and capital subsidies and pays rent in amounts equal to PRPA debt service requirements. The PRPA is fiscally dependent on the PG, as the Governor must approve the issuance of its debt.

Pennsylvania Higher Education Assistance Agency (PHEAA) - The PHEAA makes grants and loans to students to help fund the cost of higher education. Lending institutions and post-secondary schools are involved in the loan program. The PG funds the PHEAA grant program; the PHEAA issues revenue bonds to fund the student loan program. Revenue bonds are repaid from student loan repayments. The PHEAA also services student loan portfolios for lending institutions. The PG appoints all voting board members but does not significantly impose its will on the PHEAA. A significant PG financial burden exists through subsidizing the grant program; also, although the PG is not obligated for the PHEAA revenue bonds, the PG could take certain actions to satisfy bondholders. The PHEAA is fiscally dependent, as the Governor must approve the issuance of its debt.

Pennsylvania Housing Finance Agency (PHFA) - The PHFA makes loans to eligible individuals and organizations to purchase or construct housing. The loans benefit low and moderate-income individuals and families. The PG appoints all voting board members; four of the fourteen members may be removed at will. The Governor is required to request an appropriation from the General Assembly for the PHFA whenever a deficiency exists in the capital reserve account or if additional funds are needed to avoid a default on the PHFA debt. This represents a PG moral obligation for the PHFA debt. The Governor must approve the issuance of the PHFA debt.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pennsylvania Industrial Development Authority (PIDA) - The PIDA collaborates with local industrial development corporations to make loans that help preserve or expand the work force, assist targeted economic areas or assist specific companies. Loans are made at lower-than-market interest rates; the interest rates are based on local unemployment and other economic conditions. The PIDA issues revenue bonds to finance the loan program. Loan repayments are used for debt service payments. The PIDA operates closely with the DCED. The PG appoints all voting board members and is able to impose its will on the PIDA. The PG has provided contributed capital; "excess" PIDA funds are transferred to the **General Fund**. The PG is not obligated for the PIDA debt, but the PG could take certain actions to satisfy bondholders.

Pennsylvania Infrastructure Investment Authority (PENNVEST) - PENNVEST makes grants and low-interest loans to local governments and authorities, businesses and nonprofit organizations for the construction, improvement, repair or rehabilitation of drinking and waste water systems. The PENNVEST obtains funds through Commonwealth general obligation bond proceeds (approved by referendum), revenue bonds, the Federal government and contributed amounts from Commonwealth funds. Loan repayments finance the PENNVEST debt service costs. PENNVEST operates closely with the Department of Environmental Protection. The PG appoints all voting board members; there are limitations on three of the thirteen appointments. By issuing general obligation debt and providing the proceeds to the PENNVEST as contributed capital, the PG creates a significant financial burden. The PG is not obligated for the PENNVEST debt, but the PG could take certain actions to satisfy bondholders. Upon dissolution, the assets of the PENNVEST revert to the Commonwealth.

Pennsylvania Turnpike Commission (PTC) - The PTC was created to construct, maintain and operate a turnpike system in the Commonwealth. Activities are financed through user tolls and the issuance of revenue bonds. Debt service payments are funded through user tolls. The PTC works closely with the Department of Transportation. The PG appoints all voting members. When all the PTC bondholders have been satisfied, the PTC assets revert to the Department of Transportation. The Governor must approve the issuance of all PTC debt. The PG is not obligated for PTC debt, but the PG could take certain actions to satisfy bondholders. The PTC is included for its fiscal year ended May 31, 2003.

State System of Higher Education (SSHE) - The SSHE was created to provide instruction for postsecondary students. The SSHE is composed of fourteen universities and an administrative headquarters. Resources are provided by student tuition, grants and PG subsidies. The PG appoints all voting board members. Five of the sixteen appointments must be trustees of universities; three must be students. The PG provides significant operating and capital subsidies to the SSHE. The PG is not obligated for the SSHE debt, but the PG could take certain actions to satisfy bondholders.

Pennsylvania Life and Health Insurance Guaranty Association (PLHIGA) (Fiduciary Funds) - The PLHIGA was created to protect insurance policy owners, insured persons, beneficiaries annuitants, payees and assignees of direct non-group life, health, annuity and supplemental policies or contracts from potential insurer failure due to the impairment or insolvency of the insurer. The PLHIGA guarantees the payment of insurance benefits and continuation of coverage by assessing member insurers. The PLHIGA is also authorized to assist the Pennsylvania Insurance Commissioner in the prevention and detection of insurer impairments or insolvencies. The PG has appointment approval authority for all governing board members and the Insurance Commissioner has broad authority to impose will on the PLHIGA. There is a minor financial burden on the PG.

Pennsylvania Property and Casualty Insurance Guaranty Association (PPCIGA) (Fiduciary Funds) - The PPCIGA was created to provide for the payment of insured property and casualty policy claim losses and to avoid losses to claimants or policyholders as a result of insurer insolvency. The PPCIGA guarantees the payment of insurance benefits and continuation of coverage by assessing member insurers. The PG has appointment approval authority for all governing board members and the Insurance Commissioner has broad authority to impose will on the PPCIGA. There is a minor financial burden on the PG.

Public School Employees' Retirement System (PSERS) (Fiduciary Funds) - The PSERS was created to administer and provide pension benefits to public school employees in Pennsylvania. The PSERS covers almost all such employees. Covered elementary and secondary school employers make employer contributions with the PG reimbursing each employer at least half their required annual contribution. Employer contributions for covered employees of higher education institutions and covered employers and the PG share state-owned schools equally; all covered public school employees also contribute. The PG appoints eight of fifteen voting board members; the seven other members are appointed by active or retired public school employees or are appointed by public school boards. In addition to making significant contributions to the PSERS, the PG guarantees the payment of all annuities and other pension benefits. This represents a compelling PG financial burden.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pennsylvania Economic Development Financing Authority (PEDFA) - The PEDFA was created to lend money primarily to businesses to promote economic development in the Commonwealth. The PEDFA issues revenue bonds to fund specific projects only and repayments are derived solely from project revenues. The debt is considered non-recourse, as the Authority is not obligated to bondholders beyond amounts received by the Authority from the funded projects. Financial statement information for the PEDFA is not reported because its only activity involves conduit debt. The PG appoints all sixteen board members; five members are ex-officio. The PG is not obligated for the PEDFA debt, but the PG could take certain actions to satisfy bondholders. Upon dissolution, the assets of PEDFA revert to the Commonwealth.

Pennsylvania Energy Development Authority (PEDA)—The PEDA was created to promote the development of energy sources within the Commonwealth. The PEDA issued revenue bonds and lent the proceeds to fund three specific projects. Loan repayments are derived solely from project revenues. The debt is considered non-recourse, as the PEDA is not obligated to bondholders beyond amounts received from the funded projects. The PEDA has not issued any debt since 1990. Financial statement information for the PEDA is not reported because its only activity involves conduit debt. The PG appoints all nineteen board members; six members are ex-officio. The Governor must approve the issuance of Authority debt. The PG is not obligated for the PEDA debt, but the PG could take certain actions to satisfy bondholders.

The **Pennsylvania Life and Health Insurance Guaranty Association** and the **Pennsylvania Property and Casualty Insurance Guaranty Association**, discretely presented component units, are included for their fiscal years ended December 31, 2002.

Financial Statements for Component Units and Investment Trust Fund

Audited financial statements for component units are available by writing to the Deputy Secretary for Comptroller Operations, Room 207 Finance Building, Harrisburg, PA 17120. The Commonwealth sponsors the INVEST Program for Local Governments, an external investment pool, which is reported as an Investment Trust Fund. Audited financial statements for that Program are also available through the Deputy Secretary for Comptroller Operations.

Related Organizations

The Commonwealth created the **Pennsylvania Municipal Retirement System** (PMRS). The PG appoints all eleven governing board members but is not financially accountable, as there is no imposition of will, no financial benefit/burden, nor fiscal dependency associated with the PMRS. Local governments are the only participants in the PMRS. Participation is voluntary and there are variations among different municipal pension plans. Local participating governments are financially responsible only for their own plan obligations. The Commonwealth provides accounting services to the PMRS on a cost reimbursement basis.

The Commonwealth also created the **Automotive Theft Prevention Authority** (ATPA). The PG appoints all seven governing board members but is not financially accountable due to a lack of imposition of will and no financial benefit/burden. The ATPA is not fiscally dependent on the PG. The operation of the ATPA is funded by an annual assessment paid by companies providing automobile insurance in the Commonwealth. The PG processes cash receipts and disbursements for the ATPA.

The **Philadelphia Parking Authority** (Authority) is financially reported as a discretely presented component unit in the City of Philadelphia's (City) financial reporting entity. During 2001, the General Assembly passed Senate Bill 780 that provided, in part, for the Commonwealth to appoint a voting majority of the Authority's governing board. The law provided for an increase from five to eleven board members; the Commonwealth appointed six new members by June 30, 2001. Through June of 2006, existing members' (appointed by the City) terms are to expire and neither the Commonwealth nor the City are to appoint replacements for the five current members. Beginning June 1, 2006 the board is to consist of six members. Subsequent to passage of the 2001 law, the Authority and the City pursued several legal actions contesting, among other things, the constitutionality of the new law.

The **Philadelphia School District** (School District) is financially reported as a discretely presented component unit in the City of Philadelphia's (City) financial reporting entity. During 2001, the General Assembly passed Senate Bill 640 that provided, in part, for several changes to the Public School Code. Among other things, the changes provide for the Commonwealth to appoint a voting majority of the School Reform Commission that now governs the School District. Despite these changes, the School District remains fiscally dependent on the City.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint Venture

The Commonwealth, through its Office of Administration, created the Pennsylvania Employees Benefit Trust Fund (PEBTF) using a contractual agreement with various Commonwealth employee labor unions. The PEBTF establishes and provides Commonwealth employee health and welfare benefits. A governing board administers the PEBTF; one-half of the board is appointed by the Commonwealth and one-half is appointed by the various unions. Neither the Commonwealth nor the unions control the governing board or the PEBTF; administration is jointly and equally shared. The Commonwealth unilaterally pays for the cost of providing benefits. Contribution amounts are based on the terms contained in collective bargaining agreements. Employee unions are not financially responsible for making contributions. Neither the Commonwealth nor the employee unions have an equity interest or any ongoing financial interest in the PEBTF. Aside from its obligation to make periodic, established contributions, the Commonwealth is not responsible for any obligations of the PEBTF.

Excluded Organizations

School districts, local governments and counties are considered separate, stand-alone primary governments because they are governed by popularly elected officials. Secondary vocational-technical schools, intermediate units and community colleges were considered as potential component units, but have been excluded from the financial reporting entity. These schools may receive significant PG operating and/or capital subsidies, but the PG does not appoint a voting majority of governing board members, nor does the PG impose its will on these organizations. Although various Commonwealth laws affect or strongly influence these organizations, the PG does not control day-to-day operating decisions. These organizations are not fiscally dependent. The PG appoints a portion, but not a voting majority, of the governing boards at the following four universities (commonly referred to as state related): Pennsylvania State University, University of Pittsburgh, Lincoln University and Temple University. The PG provides significant subsidies; however, given the absence of PG appointment of a governing board voting majority and the lack of fiscal dependency, these universities are excluded from the financial reporting entity.

Primary Government – Fund Structure

Fund Accounting: In governmental accounting, a fund is defined as an independent fiscal and accounting entity, with a self-balancing set of accounts, recording cash and/or other resources together with all related liabilities and equities which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with the fund's special regulations, restrictions or limitations. In the Commonwealth, funds are established by legislative enactment or, in certain rare cases, by administrative action.

The fund financial statements include: three major governmental funds and total nonmajor governmental funds; and four major enterprise funds and total nonmajor enterprise funds and all fiduciary funds. The Commonwealth uses the following fund categories to account for each fund included in the primary government:

Governmental Funds

General Fund—Accounts for all financial resources except those required to be accounted for in another fund.

The **General Fund** is the Commonwealth's main operating fund and is reported as a Major Fund.

Special Revenue Funds—Account for the proceeds of specific revenue sources (other than debt service or capital projects funds) that are legally restricted to expenditure for specified purposes. The **Motor License Fund** and the **Tobacco Settlement Fund** are reported as Major Funds.

The **Motor License Fund** receives revenues from liquid fuels taxes, licenses and fees on motor vehicle registrations and operating privileges, aviation fuel taxes, federal aid for highway and aviation purposes, contributions from local subdivisions for highway projects and other miscellaneous revenues. The Fund makes expenditures for highway and bridge improvement, design, maintenance, and purchases of rights-of-way, as well as aviation activities and Transportation licensing and safety activities. It also finances State Police highway patrol operations and pays subsidies to local subdivisions for construction and maintenance of roads.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The **Tobacco Settlement Fund** was established to deposit all payments received by the Commonwealth pursuant to the Master Settlement Agreement with tobacco product manufacturers. Deposits into this fund include: jurisdictional payments received by the Commonwealth from the master agreement; strategic contribution payments from the master agreement and earnings from investments. Expenditures from this fund are determined by the annual budget appropriated to each program distributed as follows: 8 percent to the Health Account; 13 percent for Home and Community Based Services; 12 percent for Tobacco Use Prevention and Cessation; 19 percent for Health Related Research; 10 percent for Uncompensated Care; 30 percent for Health Investment Insurance; and 8 percent for the expansion of the PACENET Program.

Debt Service Funds—Account for the accumulation of resources, principally transfers from other funds, for the payment of general long-term debt principal and interest. There are no major debt service funds.

Capital Projects Funds—Account for financial resources to be used for the acquisition or construction of major capital facilities, including those provided to political subdivisions and other public organizations (other than those financed by Proprietary or Fiduciary Funds). There are no major capital projects funds.

Proprietary Funds

Enterprise Funds—Account for operations that are financed and operated in a manner similar to private business enterprises. Costs of providing goods and services to the general public on a continuing basis, including depreciation, are financed or recovered primarily through user charges. The **State Lottery Fund, State Workmen's Insurance Fund, Unemployment Compensation Fund** and **Tuition Payment Fund** are all reported as Major Funds.

The **State Lottery Fund** provides for the operation of the Pennsylvania State Lottery and for programs to support older Pennsylvanians. Revenues are derived from the sale of lottery tickets, interest earned on securities and deposits, unclaimed prize monies and Federal grants. Fund expenses pay for prizes to holders of winning lottery tickets and commissions to local lottery agents. Amounts remaining after payment of lottery prizes and commissions are used to fund programs benefiting older Pennsylvanians including PENNCARE, PACE, free mass transit and reduced fare shared-ride programs, and property tax and rent rebates.

The **State Workmen's Insurance Fund** (SWIF) was created by legislation on June 2, 1915 and operates within the Department of Labor and Industry. It is a self-sustaining fund providing workers' compensation insurance to employers, including those who are refused policies by private insurance firms. SWIF is subject to underwriting rules, classifications and rates promulgated by rating bureaus authorized by the Commonwealth Insurance Commissioner. Premium rates are established by the bureaus based on the history of accidents by industry classification. Revenues are generated by premiums charged to policyholders plus investment income. Workers' compensation payments and administration costs are paid from the Fund. The **State Workmen's Insurance Fund** is included for its fiscal year ended December 31, 2002.

The **Unemployment Compensation Fund** is comprised of four basic components: the 63 Employer Contribution Fund, 64 UC Benefit Payment Fund, 21 Special Administration Fund, and the UC Trust Fund in Washington, D.C. The purpose of these funds is to collect employer assessments for UC (63 Fund) and transfer the assessments to the Federal government for deposit in the UC Trust Fund. As needed, these funds are drawn back to pay unemployment compensation payments to claimants (64 Fund). The 21 Special Administration Fund is used to isolate penalty and interest charges from employers and claimants. It is used to supplement grant-funding shortfalls and pay audit disallowances with any remaining amounts over $200 thousand being transferred to the UC Trust Fund in Washington, D.C. each June 30. The 64 UC Benefit Payment Fund also receives amounts from the Federal government to reimburse Pennsylvania for those Federal workers who collected UC benefits from Pennsylvania.

The **Tuition Payment Fund** offers a college savings program with a guaranteed rate of return based on increases in the cost of tuition. The program is administered by the Tuition Account Program Bureau within the Treasury Department with oversight by the Tuition Account Program Advisory Board. Revenue is derived primarily from application fees, participant contributions and investment income. Fund expenses consist mainly of payments to educational institutions and administrative costs.

The State Stores Fund is reported for its fiscal year ended June 24, 2003.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Internal Service Funds—Account for the financing of goods or services provided by one department or agency to other departments or agencies of the Commonwealth, or to other governmental units, on a cost-reimbursement basis. The Purchasing Fund is used to purchase materials, supplies, services, and equipment for use by departments, agencies, boards, and commissions of state government, and to pay costs associated with administering the fund. The fund receives reimbursements from the various Commonwealth departments, boards, and commissions for the materials, services, and supplies they obtain, from appropriations and periodic loans from the **General Fund**, from the sale of vehicles and unserviceable property and from interest earned on securities. The Manufacturing Fund is a fund that uses inmate labor to produce items for the Department of Corrections and other state agencies. The revenue source is the sale of items produced or services provided. Expenditures are for raw materials, inmate labor, and general and administrative costs.

Fiduciary Funds

Trust and Agency Funds—Account for assets held by the Commonwealth in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include Pension (and other employee benefit) Trust Funds, an Investment Trust Fund, a Private Purpose Trust Fund and Agency Funds. The State Employees' Retirement System, a pension trust fund, is a component unit and accounts for the payment of retirement, disability and death benefits to members of the State Employees' Retirement System and their beneficiaries. The Deferred Compensation Fund is an other employee benefit pension trust fund that collects and administers amounts contributed by Commonwealth employees who are deferring a portion of their income until future years, in accordance with Internal Revenue Code Section 457. The INVEST Program for Local Governments is an Investment Trust Fund that invests amounts owned by local governments and school districts. The Tuition Account Investment Program is a Private Purpose Trust Fund that invests amounts on behalf of participants who are saving for college tuition costs.

The State Employees' Retirement System, a pension trust fund, the Deferred Compensation Fund, an other employee benefit trust fund, and the INVEST Program for Local Governments, an Investment Trust Fund, are included for their fiscal years ended December 31, 2002.

Measurement Focus and Basis of Accounting- Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. This means that the Statement of Net Assets reports all assets (including receivables regardless of when collected and capital assets, such as heavy trucks, highways and bridges) and liabilities regardless of when payment is due. The Statement of Activities includes all revenues and expenses, regardless of when cash is respectively received or paid. The Statement of Activities reports program revenues, which are revenues derived directly from a specific governmental function and are reported by the function which generates the revenue. Charges for goods or services, most investment income, grant revenues and fines are reported as program revenues. Neither program revenues nor expenses are reported for donated works of art, historical treasures or similar assets received during the fiscal year because such donations are not material. Except for unemployment compensation tax revenues, which are reported as charges for sales and services program revenues, all tax revenues are classified as general revenues in the Statement of Activities. The Statement of Activities also reports governmental activities expenses that include governmental fund expenditures (which are not eliminated or reclassified) and current year depreciation on capital assets, which recognizes the cost of ordinary use of the assets over their estimated useful lives. The costs of most employee benefits earned during the fiscal year (such as vacation time earned) and increases in self-insurance liabilities are also reported as expenses in the statement, regardless of when the benefits are used or the liabilities are paid.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus and Basis of Accounting – Fund Financial Statements

Governmental Funds

The **General Fund**, special revenue, debt service and capital projects funds (governmental funds) are reported using the current financial resources measurement focus and modified accrual basis of accounting. Under this measurement focus, only current assets and current liabilities are normally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. Unreserved fund balance represents a measure of available, spendable resources. Under the modified accrual basis of accounting, revenues of governmental funds are recognized in the year that they become susceptible to accrual (both measurable and available) to pay current fiscal year liabilities. The Commonwealth accrues the following major revenue sources that are both measurable and available (available is treated as being received within 60 days of fiscal year end for these revenues): sales and use taxes, cigarette taxes, corporation taxes, personal income taxes, liquid fuels taxes, inheritance taxes, liquor taxes, investment income, institutional revenues and sales of goods and services.

Grant revenues, including Federal government grant revenues, are recognized when earned. Revenues from most other sources are recognized when received. Expenditures are generally recognized in the fiscal year the goods or services are received and the related fund liability is incurred. Debt service expenditures for principal and interest on general long-term obligations are recognized when due. Prepaid items and inventory purchases are reported as current fiscal year expenditures, rather than allocating a portion of related cost to the fiscal year when the items are actually used. Expenditures for claims, judgments, compensated absences and employer pension contributions are reported as the amount accrued during the fiscal year that normally would be liquidated with expendable available financial resources.

Proprietary Funds, Pension (and other employee benefit) Trust Funds and Investment Trust Fund

The enterprise, internal service (proprietary funds), pension (and other employee benefit) trust funds and the investment trust fund are reported using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus all assets and liabilities associated with the operations of these funds are included on the statement of net assets. Under the accrual basis of accounting, revenues are recognized in the fiscal year earned and expenses are recognized in the fiscal year incurred.

Enterprise funds that report unemployment compensation, insurance, tuition payment and loan programs report all revenues as operating revenues; non-operating revenues are reported for other programs, such as lottery and liquor control, and primarily include investment income and grant revenues. Under the Governmental Accounting Standards Board's (GASB) Statement 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," the Commonwealth has elected not to adopt the Financial Accounting Standards Board pronouncements issued after November 30, 1989.

Agency Funds

Assets and liabilities of agency funds are reported using the accrual basis of accounting.

Significant Accounting Policies

Pooled Cash: In accordance with the Fiscal Code, cash balances of most Commonwealth funds are pooled by the Treasury Department. Cash balances are segregated by fund, but accounted for centrally for receipt and disbursement purposes. The law requires that collateral be pledged by banks and other financial institutions to guarantee the Commonwealth's cash on deposit.

Cash Equivalents: No investments that could be defined as cash equivalents have been treated as such on the Statement of Cash Flows; therefore, only net changes in cash are displayed.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment Pools: The Fiscal Code provides the Treasury Department with investment control over most Commonwealth funds. The Treasury Department uses a variety of sophisticated internal investment pools to ensure preservation of principal, liquidity, diversification and income for Commonwealth funds. All participating funds report amounts invested in such pools as temporary and/or long-term investments; the pools themselves are not financially reported. The Treasury Department maintains an external investment pool, the INVEST Program for Local Governments, which separately issues audited financial statements, and is reported as an Investment Trust Fund. Financial statements for the INVEST Program include a statement of net assets and a statement of changes in net assets prepared using the economic resources measurement focus and the accrual basis of accounting.

Temporary Investments: The Treasury Department manages the Treasury Investment Program (TIP); practically all individual funds that are part of primary government are participants in the TIP. The Treasury Department accounts for each participating fund's equity (considered "shares") in the TIP on a daily basis. "Share" balances of participating funds fluctuate considerably during the fiscal year, based on the timing of cash receipts and disbursements in the participating fund, and are reported as temporary investments. The TIP is considered an internal investment pool. Periodic TIP earnings are allocated to specific participating funds based on either the weighted daily average share balance or the net asset value on redemption date combined with share balances on declaration date.

Several individual funds may directly own investments in specific securities. Such investments, which are expected to be realized in cash within twelve months or less, are reported as temporary investments. Temporary investments are reported at fair value (typically using published market prices) except for nonparticipating interest-bearing contracts, which are reported at amortized cost.

Long-Term Investments: Investments expected to be realized in cash after more than twelve months from fiscal year end are reported as long-term investments. Long-term investments are reported at fair value, except for certain nonparticipating interest-bearing contracts, which are reported at amortized cost. Fair values are based on published market prices, quotations from national securities exchanges and securities pricing services, or by the respective fund managers for securities that are not actively traded. Certain pension trust fund investments, including real estate, venture capital, private equity, private placements and alternative investments, are valued based on appraisals, independent advisors or the present value of projected future income.

Investment Income: Investment income includes interest, dividends, realized gains and losses and the change in the fair value of investments, if any, during the fiscal year. Certain investment income from specific funds' investments is assigned to another fund and is reported by the receiving fund if the income is transferred for legal or contractual reasons; otherwise, the investment income is reported as a transfer by the receiving fund. Specific fund disclosures for assigned investment income are provided in Note H.

Grants: Federal grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental revenues when entitlement occurs. Federal reimbursement-type grant revenues are recorded when the related expenditures or expenses are incurred.

Inventories: Inventories of operating materials and supplies are reported by certain governmental activities and operating and merchandise inventories are reported by Proprietary Funds and the State System of Higher Education, a discretely presented component unit. These inventories are valued at the lower of cost or market (first-in, first-out) by governmental activities and Proprietary Funds, and lower of cost or market by the State System of Higher Education, with cost determined principally using weighted average. In the governmental fund financial statements, inventories are accounted for using the purchases method.

Capital Assets and Depreciation: General capital assets (including infrastructure) and other capital assets are reported at cost or estimated historical cost in the Statement of Net Assets. Donated capital assets are reported at fair market value at the time of donation. The cost of all land is reported; for other types of capital assets the following minimum dollar reporting thresholds are used:

Land improvements, buildings and building improvements….....	$25,000
Machinery and equipment	$25,000
Highway and bridge infrastructure	$100,000
All other infrastructure	$25,000

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Commonwealth agencies maintain inventories of all their respective capital assets, including assets acquired for less than the above minimum amounts, which are not reported in the BFS. Certain waterway and other non-highway institutional infrastructure acquired prior to July 1, 2001 is not reported in the Statement of Net Assets. The Pennsylvania Historical and Museum Commission (PHMC) owns diverse collections of historical, architectural, prehistoric and artistic artifacts; archives and manuscripts; and scientific specimens. The Commonwealth does not capitalize these collections as they meet the following criteria: PHMC's mission in acquiring these collections is for the purpose of preservation, education, research and exhibition; PHMC secures and preserves all collections in order to adequately preserve Commonwealth history; and all acquisitions and deaccessions must be approved by the PHMC Collections Committee and the PHMC Executive Director. All amounts received from the deacessioning of artifacts/collections are placed in a restricted account that can only be used for the purchase of new artifacts/collections. The Commonwealth does not capitalize expenditures for software or expenditures to protect farmland under the Agricultural Area Security Law. Capital assets (excluding land and construction in progress) are depreciated over the estimated useful lives of major capital asset classes using the straight-line method. Depreciation expense is reported in the Statement of Activities as part of direct functional expenses; all depreciation is allocated to a specific function. Capital assets reported by proprietary funds are reported in those funds at cost or estimated historical cost. Depreciation is reported on the straight-line basis over the capital assets' estimated useful lives. The following useful lives are used for primary government governmental activities:

Buildings and building improvements	40 years
Improvements other than buildings	30 years
Machinery and equipment	10 years
Highway heavy equipment	15 years
Highway infrastructure	25 years
Bridge infrastructure	50 years
Dams, dikes and pier infrastructure	50 years
Other infrastructure	20 years

Primary government business-type activities report depreciation expense using useful lives that are very similar to the above and do not report any infrastructure. Certain land, buildings and improvements owned by the Commonwealth and used by the State System of Higher Education (SSHE), a discretely presented component unit, which were acquired or constructed before July 1, 1983 (the inception date for the SSHE), are financially reported as governmental activities general capital assets. All general capital assets acquired or constructed for the SSHE subsequent to June 30, 1983 without the use of university funds or incurrence of SSHE debt are also reported as governmental activities general capital assets. This reporting treatment is used to conform to the enabling legislation for the SSHE, which includes the vesting of title for the SSHE-used property. Capital assets reported by the SSHE are stated at cost. Depreciation of SSHE capital assets is recognized over the estimated useful life of the assets.

Self-Insurance: The Commonwealth is uninsured for property losses and self-insured for annuitant medical/hospital benefits, employee disability and tort claims. Note M provides disclosures for self-insurance liabilities.

Compensated Absences: Employees earn annual leave based on 2 percent to 10 percent of regular hours paid. A maximum of 45 days may be carried forward at the end of each calendar year. Employees are paid for accumulated annual leave upon termination or retirement.

Employees earn sick leave based on 5 percent of regular hours paid. A maximum of 300 days may be carried forward at the end of each calendar year. Retiring employees that meet service, age or disability requirements are paid in accordance with the following schedule:

Days Available at Retirement	Percentage Payment	Maximum Days Paid
0-100	30%	30
101-200	40%	80
201-300	50%	150
over 300 (in last year of employment)	100% of days over 300	13

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accumulated annual and sick leave liabilities payable with expendable available financial resources are reported by Governmental Funds; all compensated absences payable are reported by governmental activities and Proprietary Funds and Pension Trust Funds.

Liabilities: In the Statement of Net Assets, governmental activities liabilities are presented as either "current" or "noncurrent." Liabilities are segregated into these categories by establishing an average maturity for the liability class and classifying the portion due within one year of the statement date as current and the portion due beyond one year of the statement date as noncurrent. For liabilities without specific maturity or due dates, estimates are made of maturities. Liabilities without specific due dates include those related to self-insurance and compensated absences.

Pension Costs: The Commonwealth's policy is to fund pension costs incurred and to amortize prior service costs over varying periods not exceeding 20 years.

Intergovernmental Revenues: These amounts represent revenues received principally from the Federal government.

Restricted Net Assets: These amounts were determined based on enabling legislation that provides for restrictions on how the resources of special (non-**General Fund**) funds may be used. Practically all reported restricted net assets could become unrestricted based on possible future legislative changes.

Tax Stabilization Reserve Fund: This fund, commonly referred to as the "Rainy Day Fund," was created in July of 1985 by Act 32 to provide financial assistance to minimize future revenue shortfalls and deficits, and promote greater continuity and predictability in the funding of vital government services. The tax stabilization reserve balance was not to exceed 6 percent of the estimated revenues of the **General Fund**. Revenue was provided through an executive authorization appropriated by the General Assembly for transfer to this Fund. Act 74 of 2001 provided that, for the fiscal year beginning July 1, 2001 and any fiscal year thereafter during which there is a surplus of operating funds in the **General Fund**, as certified by the Budget Secretary, ten percent of such surplus was to be deposited into this Fund. In addition, the proceeds received from the disposition of certain assets of the Commonwealth were also to be deposited into this Fund. For GAAP reporting purposes, at June 30, 2001 the fund balance in this Fund was reported as a fund balance reservation in the **General Fund**. During the fiscal year ended June 30, 2002, Act 91 of 2002 abolished this Fund and net investment assets (valued at $1.038 billion at June 30, 2002) were transferred, resulting in a decrease in fund balance reservations and an increase to unreserved/undesignated fund balance in the **General Fund**.

Budget Stabilization Reserve Fund: Act 91 of 2002 provides for this new Fund effective July 1, 2002 to eventually establish a budgetary reserve amounting to 6 percent of the revenues of the **General Fund**. For the fiscal year beginning July 1, 2002 and in any fiscal year thereafter in which the Secretary of the Budget certifies that there is a surplus in the **General Fund**, 25 percent of the surplus shall be deposited by the end of the next succeeding quarter into this Fund.

Tobacco Master Settlement Agreement Proceeds: In 1997, the Pennsylvania Attorney General began litigation in Commonwealth Court against several defendant tobacco product manufacturers to recover certain amounts the Commonwealth allegedly expended to provide health care to numerous tobacco product users. In 1998, along with many other states, the Commonwealth joined in a settlement that provided, among other things, that the Commonwealth cease its litigation against manufacturers. As part of the settlement, certain manufacturers agreed to remit periodic payments to the Commonwealth and other states (amounting to over $200 billion, according to some estimates) until 2025. Amounts remitted are calculated based on a variety of specific settlement provisions; actual tobacco product sales are one key factor used in determining periodic payment amounts. During the fiscal year ended June 30, 2003 the Commonwealth received $426.5 million from the settlement; this amount is reported as revenue in the **Tobacco Settlement Fund**.

Due From Other Governments: This receivable represents amounts due primarily from the Federal government for various department programs.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interfund Transactions: The Commonwealth has the following types of transactions between funds, between primary government governmental activities and business-type activities and between primary government and discretely presented non-fiduciary component units:

Statutory Transfers —Legally required transfers that subsidize recipient fund programs and are reported when incurred as "Transfers in" by the recipient fund and as "Transfers out" by the disbursing fund. Legally required payments from the primary government to component unit organizations are reported when incurred as governmental activities program expenses and component unit subsidies by the recipient organization. Interfund balances (amounts due from/to other funds) are reported for unremitted transfers at fiscal year end. In the Statement of Activities, only transfers between governmental activities and business-type activities are reported as transfers.

Transfers of Expenditures (Reimbursements)—Reimbursement of expenditures made by one fund for another that are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

Interfund Services Provided and Used—Charges or collections for services provided by one fund to another that are recorded as revenues of the recipient fund and expenditures or expenses of the disbursing fund are reclassified and treated as reimbursements (above) in fund financial statements and the Statement of Activities. Interfund balances (amounts due from/to other funds), are reported for unremitted charges or collections at fiscal year end that arise in connection with routine, ordinary governmental fund and proprietary fund operations.

The composition of the Commonwealth's interfund receivables/payables at June 30, 2003 and transfers in/out during the fiscal year ended June 30, 2003 is presented in Note H. Interfund balances between two governmental funds or two proprietary funds are not reported in the Statement of Net Assets.

New Accounting Pronouncements: Effective July 1, 2002 the Commonwealth adopted the Governmental Accounting Standards Board's (GASB's) Technical Bulletin 2003-1 "Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets." Note D includes disclosures required by this new standard. In May 2002 the GASB issued Statement No. 39, "Determining Whether Certain Organizations Are Component Units." GASB No. 39 amends GASB No. 14 and potentially affects the composition of the financial reporting entity; both the primary government and discretely presented component units may be affected. In March 2003 the GASB issued Statement No. 40, "Deposit and Investment Risk Disclosures." GASB No. 40 amends GASB No. 3 and requires additional disclosures related to concentrations of credit risk, interest rate risk and foreign currency risk. In November 2003 the GASB issued Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries." GASB No. 42 requires ongoing evaluation of specific events or changes affecting capital assets to determine whether they are impaired. The Commonwealth must adopt the new standards as follows:

GASB No. 39	Effective July 1, 2003, for financial statements for the fiscal year ending June 30, 2004
GASB No. 40	Effective July 1, 2004, for financial statements for the fiscal year ending June 30, 2005
GASB No. 42	Effective July 1, 2005, for financial statements for the fiscal year ending June 30, 2006.

NOTE B – RESTATEMENT OF PREVIOUSLY REPORTED NET ASSETS AT JUNE 30, 2002

Primary Government

The previously-reported net assets for the Purchasing Fund and the Manufacturing Fund, Internal Service Funds, have been restated and increased, respectively, by $31,067 from $14,452 to $45,519 and by $6,003 from $41,254 to $47,257 as of July 1, 2002 to correct the treatment for eliminating governmental fund amounts owed to each Internal Service Fund. Net assets for Internal Service Funds as of July 1, 2002 amount to $92,776 (amounts in thousands).

Discretely Presented Component Units

The previously-reported net assets for the Pennsylvania Shipyard Development Corporation (PSDC) have been restated and increased by $5,374, from $48,077 to $53,451, as of January 1, 2002 to include previously-unreported grant revenues during its calendar year ended December 31, 2001. Total net assets for discretely presented component units have been restated and increased, from $4,786,601 to $4,791,975 at July 1, 2003. PSDC is reported for its year ended December 31, 2002 (amounts in thousands).

NOTE C – NET ASSETS/FUND EQUITY

Governmental Activities and Business-Type Activities Net Assets: Total Net Assets are the difference between Total Assets and Total Liabilities reported on the Statement of Net Assets. Total Net Assets are reported in three distinct components: Invested in capital assets, net of related debt; Restricted net assets; and Unrestricted net assets. Invested in capital assets, net of related debt represents total capital assets less accumulated depreciation and the outstanding liability for debt specifically related to the acquisition of the capital assets. At June 30, 2003 governmental and business-type activities, respectively, reported $16,106,064 and $42,421 in net assets invested in capital assets, net of related debt. Restricted net assets for special funds are those that are statutorily established and for which net assets may only be used for specific legislated purposes. Governmental fund balance "designations" are not treated as restricted net assets because they represent plans and can easily be changed. Restraints established by enabling legislation, on the other hand, are not easily changed. At June 30, 2003 governmental and business-type activities, respectively, reported $3,085,101 and $2,496,518 in restricted net assets. Unrestricted net assets represent total net assets minus the totals of invested in capital assets, net of related debt and restricted net assets. At June 30, 2003 governmental activities reported an unrestricted net assets deficit of $1,156,933. Business-type activities reported an unrestricted net assets deficit of $71,756 at June 30, 2003 (amounts in thousands).

Governmental Fund Balance Reservations: Fund balance reservations reported in governmental fund balance sheets represent portions of governmental fund balances that are legally segregated for a specific future use or are not available for expenditure.

The amount reserved for advances in the **General Fund**, $114.1 million, is applicable to advances as follows: $14.3 million to the Purchasing Fund, an Internal Service Fund; $2.3 million to the **State Workmen's Insurance Fund** and $85.0 million to the State Stores Fund, both Enterprise Funds; $2.2 million to the **Motor License Fund**; and $10.3 million to the Pharmaceutical Assistance Fund, both Special Revenue Funds.

The amount reserved for advances in the Hazardous Sites Cleanup Fund, a Special Revenue Fund, is applicable to a $3 million advance to the Small Business First Fund, an Enterprise Fund.

Governmental funds reported total fund balance "other" reservations of $458,981 at June 30, 2003. This amount consists of $307,974 reserved in the **General Fund**, $210,227 for restricted revenue and $97,747 for continuing programs; $351,605 reserved in the **Tobacco Settlement Fund** for various health-related programs; and $56,884 reserved in nonmajor Funds for the following programs: (amounts in thousands):

Land reclamation	$ 33,663
Pharmaceutical assistance programs	4,624
Recreation programs	1,573
Conservation, recycling and economic development programs	6,228
Worker's compensation	8,977
Total nonmajor Special Revenue programs	55,065
General State Authority maintenance in the Capital Facilities Fund	1,819
Total nonmajor funds other reservations	$ 56,884

Governmental Fund Balance Designations: Designations of unreserved fund balances reported in governmental funds balance sheets reflect managerial plans for the future use of financial resources. At June 30, 2003 the Commonwealth has included the following amounts as "Designated—Other" for the **General Fund** (amounts in thousands):

General Fund:	
Group medical and life insurance	$ 93,369
Job creation tax credits	49,778
Judicial computer system	54,902
Agency construction projects	65,382
Other	6,344
Total **General Fund**	$ 269,775

NOTE C – NET ASSETS/FUND EQUITY (continued)

Governmental Fund Balance Deficits: Individual funds have reported fund balance deficits in governmental funds balance sheets. The Workmen's Compensation Supersedeas Fund and the State Racing Fund, both Special Revenue Funds, reported a fund balance deficit of $2,414 and $382 at June 30, 2003 (amounts in thousands).

The Capital Facilities Fund, a Capital Projects Fund, reported a deficit unreserved/undesignated fund balance of $356,370 at June 30, 2003. In total, the Capital Facilities Fund reported a fund balance of $237,262 at June 30, 2003. Total Capital Projects Funds reported reservations for encumbrances of $644,428; other reservations of $1,819; designations for Capital Projects of $54,026; and an unreserved/undesignated fund balance deficit of $356,370; for total combined fund balances of $343,903 at June 30, 2003 (amounts in thousands).

Proprietary Fund Net Assets: Nonmajor funds reported total restricted net assets for "other purposes" of $361,993 at June 30, 2003 for the following programs: economic development loans, $191,137; emergency services loans, $118,509; mine subsidence insurance, $36,849; vocational rehabilitation, $8,551; and $6,947 for other programs (amounts in thousands).

The **Tuition Payment Fund**, an Enterprise Fund, reported an unrestricted net assets deficit of $52,352 at June 30, 2003 (amounts in thousands).

Component Unit Net Assets: Except for the Pennsylvania Industrial Development Authority, net assets of all component units are restricted, consistent with enabling legislation for component units. Net assets are restricted to purposes specifically identified by the legislation that created the component unit entity.

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

Authority for Deposits and Investments

The deposit and investment policies of the Treasury Department are governed by Sections 301, 301.1 and 505 of the Pennsylvania Fiscal Code (Act of 1929, P.L. 343) and Section 321.1 of the Pennsylvania Administrative Code (Act of 1929, P.L. 177, No. 175). Treasury deposits must be held in insured depositories approved by the Board of Finance and Revenue and must be fully collateralized. The Treasury Department is granted the power to invest in any deposits and investments subject, however, to the exercise of that degree of judgment and care under the circumstances then prevailing which persons of prudence, discretion and intelligence who are familiar with such matters exercise in the management of their own affairs not in regard to speculation but in regard to the permanent disposition of the funds considering the probable income to be derived therefrom as well as the probable safety of their capital. Such deposits and investments may include equity securities and mutual funds.

The Treasury Department manages the Treasury Investment Program (TIP), which is comprised of the Common Investment Pool, Treasury Liquid Asset Pool, **General Fund** Program and **Motor License Fund** Program. As of June 30, 2003, approximately 87 percent of the amounts from practically all Commonwealth Funds are invested on a temporary basis in the TIP. The objectives of the TIP are preservation of principal, liquidity, diversification, and income and all investments are made in accordance with the preceding statutory authority. Throughout the fiscal year, the TIP participates in reverse repurchase agreements; Treasury Department policies require that the maturity date of the reverse repurchase agreements and the maturity date of the regular repurchase agreement purchased with the proceeds occur on the same date. The **General Fund** Program and **Motor License Fund** Program represent funds accumulated beyond the ordinary cash needs of these Funds. These two Programs invest in equity and intermediate-term securities.

Several Commonwealth departments have statutory authority to make their own temporary and long-term investments for the following Funds: **State Workmen's Insurance**, an Enterprise fund, Deferred Compensation, a Pension Trust fund, Workmen's Compensation Security Trust, a Special Revenue fund, and Underground Storage Tank Indemnification and Statutory Liquidator, both Agency funds.

The deposit and investment policies of certain component units are established by authority other than the Fiscal Code. Enabling statutes generally provide deposit and investment authority for component units. Further, specific bond and trust indentures, as well as formal governing board resolutions, provide deposit and investment requirements. Allowable investments of component units do not significantly differ from those investments of the Treasury Department, except that, in accordance with applicable statutory authority, the State Employees' Retirement System and the Public School Employees' Retirement System, Pension Trust funds, utilize financial instruments with off-balance sheet risk. Specific disclosures about Pension Trust fund investments are included in this Note.

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Deposits

The Treasury Department controls the receipt and disbursement of amounts owned by agencies included in the primary government. Certain discretely presented component units, meanwhile, control receipt and disbursement of their own funds, often through a trustee. The following summaries present the amount of primary government and discretely presented component unit (Commonwealth) deposits which are fully insured or collateralized with securities held by the Commonwealth or its agent in the Commonwealth's name (Category 1), those deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the Commonwealth's name (Category 2) and those deposits which are not collateralized or are collateralized by the pledging financial institution or the pledging institution's trust department or agent, but not in the Commonwealth's name (Category 3) at June 30, 2003 (amounts in thousands).

Primary Government

	Category 1	Category 2	Category 3	Total Bank Balance	Carrying Amount
Cash	$ 373,339	-	$ 9,523	$ 382,862	$ 109,227
Cash with fiscal agents	1,423,356	-	21,439	1,444,795	1,444,795
Certificates of deposit and related items	202,704	-	13,566	216,270	216,270

The bank balance for cash does not include $134.44 million in available cash resulting from 'float' for outstanding checks at June 30, 2003 which the Treasury Department invested in overnight repurchase agreements. Pension and Other Employee Benefit Trust Funds, the Private Purpose Trust Fund and Agency Funds, all Fiduciary Funds, respectively, reported $5,866, $22 and $7,231 respectively, of cash at June 30, 2003. Agency Funds reported $66,017 of cash with fiscal agents at June 30, 2003. These amounts are not included in the Statement of Net Assets. The above-listed $216,270 in certificates of deposit and related items are reported as part of primary government temporary investments at June 30, 2003 (amounts in thousands).

Discretely Presented Component Units

	Category 1	Category 2	Category 3	Total Bank Balance	Carrying Amount
Cash	$ 7,710	$ 140,742	$ 189,213	$ 337,665	$ 374,309

Fiduciary component units reported $2,001 (in thousands) of cash at their fiscal years ended December 31, 2002. These amounts are not included in the Statement of Net Assets.

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Investments

The Treasury Department, other agencies in the primary government and discretely presented component units (Commonwealth) categorize investments according to the level of credit risk assumed by the Commonwealth. Category 1 includes investments that are insured, registered or held by the Commonwealth or the Commonwealth's agent in the Commonwealth's name. Category 2 includes uninsured and unregistered investments held by the counterparty's trust department or agent in the Commonwealth's name. Category 3 includes uninsured and unregistered investments held by the counterparty, or by its trust department or its agent, but not in the Commonwealth's name. Certain investments have not been categorized because securities are not used as evidence of the investment. These uncategorized investments include ownership interests in mutual funds, mortgage loans, real estate and venture capital. The following summaries identify the level of custodial credit risk assumed and the related type of investment at June 30, 2003 (amounts in thousands).

Primary Government

All primary government investments susceptible to credit risk categorization are in Category 1, except for amounts in parentheses below, at June 30, 2003.

Commercial paper	$ 420,238
Common and preferred stocks ($160,465 is Category 3)	6,632,976
Corporate bonds and notes ($448,040 is Category 3)	2,481,368
International fixed income ($21,999 is Category 3)	899,752
International equities	39,083
Money market funds ($50,000 is Category 2)	50,000
Mortgage loans	29,982
Real estate	347,315
Repurchase agreements	2,650,264
State and municipal obligations ($2,788 is Category 3)	423,412
U.S. Treasury obligations ($7,085 is Category 2; $241,971 is Category 3)	726,359
U.S. Gov't agency obligations ($36,194 is Category 2; $263,022 is Category 3)	3,195,303
Total categorized investments	17,896,052
Investments not susceptible to credit risk categorization:	
Securities lent by the **State Lottery Fund** at June 30, 2003	3,136
Investments held by the **Tuition Payment Fund** at June 30, 2003:	
Mutual funds	1,101
Securities lent	90,052
Treasury Department global pool	35,901
Investments owned by the Deferred Compensation Fund at December 31, 2002:	
Money market funds	33,506
Mutual funds	916,724
Investments owned by the State Employes' Retirement System (SERS) at December 31, 2002:	
Treasury Department global pool	557,883
Mortgage loans	87,739
Mutual funds	3,860,397
Short-term investment funds	180,630
Venture capital	7,047,681
Securities lent by the SERS at December 31, 2002:	
Common and preferred stocks	321,354
Corporate bonds and notes	213,151
International fixed income	101,022
U.S. Government agency obligations	47,905
U.S. Treasury obligations	626,901
Investments owned by the Statutory Liquidator Fund at June 30, 2003:	
Annuities	2,117
Money market funds	237,990
Mortgage loans, partnership interests and subsidiaries	302
Treasury Department global pool	77,059
Subtotal forwarded to next page	$ 32,338,603

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Subtotal forwarded from previous page	$ 32,338,603
Investments of the Underground Storage Tank Indemnification Fund at June 30, 2003:	
Securities lent	22,084
Treasury Department global pool	3,038
Investments of the Worker's Compensation Security Trust Fund at June 30, 2003:	
Mortgage loans	2,840
Securities lent	78,862
Treasury Department global pool	35,348
Investments owned by the **State Workmen's Insurance Fund** at December 31, 2002:	
Securities lent	550,581
Treasury Department global pool	26,436
Investments owned by the **General Fund** at June 30, 2003:	
Money market funds	28,296
Securities lent	172,701
Investments owned by the **Tobacco Settlement Fund** at June 30, 2003:	
Partnership interests	1,850
Short-term investment funds	62,010
Investments owned by the Treasury Common Investment Pool at June 30, 2003:	
Money market funds	314,672
Mutual funds	55,444
Securities lent	1,355,908
Investments owned by the **Motor License Fund** at June 30, 2003:	
Money market funds	17,128
Securities lent	73,762
Mutual funds owned by the Tuition Assistance Investment Fund at June 30, 2003	49,556
Subtotal	$35,189,119
Certificates of deposit and related items	216,270
Securities lending collateral held by participating Funds	3,548,258
Amount financially reported by discretely presented component units in Pennsylvania Treasury Common Investment Pool at June 30, 2003	(501,472)
Total primary government temporary and long-term investments	$ 38,452,175

The above-listed $216,270 in certificates of deposit and related items are financially reported as part of temporary investments at June 30, 2003, but are treated as deposits for a determination of the level of credit risk associated with them. Fiduciary funds reported $26,772,997 and non-fiduciary funds reported $11,679,178 of the above $38,452,175 total primary government investments at June 30, 2003. Non-fiduciary funds reported temporary and long-term investments, respectively, of $8,161,619 and $3,517,559 at June 30, 2003 (amounts in thousands). Primary government fiduciary funds investments are not reported in government-wide financial statements.

The State Employees' Retirement System, a Pension Trust Fund, owns 100 percent of the venture capital, 100 percent of the real estate, 79 percent of the Treasury Department global pool, 35 percent of the securities lending collateral, 79 percent of the mutual funds, 67 percent of the common and preferred stocks, 63 percent of the mortgage loans, 46 percent of the corporate bonds and notes and 30 percent of the U.S. Treasury obligations, reported in the above summary. The Treasury Common Investment Pool owns 100 percent of the commercial paper, 71 percent of the international fixed income, 64 percent of the repurchase agreements and 63 percent of the U.S. Government agency obligations.

Financial Instruments With Off-Balance Sheet Risk – State Employees' Retirement System (SERS)

The SERS enters into derivative and structured financial instruments primarily to enhance the performance and reduce the volatility of its investment portfolio. It enters into foreign exchange contracts to hedge foreign currency exposure, futures contracts to gain or hedge exposure to certain equity markets and manage interest rate risk, and swaps to hedge against the effects of inflation.

Foreign exchange contracts are agreements to exchange the currency of one country for the currency of another country at an agreed upon price and settlement date. The SERS uses these contracts primarily to hedge the currency exposure of its investments. To reduce the risk of counterparty nonperformance, the SERS generally enters into these contracts with institutions regarded as meeting high standards of creditworthiness. The unrealized gain/loss on contracts is included in the SERS's net assets and represents the fair value of the contract on December 31. At December 31, 2002, the SERS had contracts to purchase foreign currencies for a total notional amount of $5,240,796 and contracts to sell foreign currencies for a

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

total notional amount of $5,189,305, for a total notional amount of $10,430,101 (amounts in thousands). The net unrealized loss on foreign currency contracts was approximately $51.5 million at December 31, 2002.

Futures contracts are standardized, exchange-traded contracts to purchase or sell a specific financial instrument at a predetermined price. Gains and losses on futures contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. Because of daily settlement, the futures contracts have no fair value.

The System has entered into certain futures contracts maturing through March 2004. The notional value of these contracts at December 31, 2002 is as follows:

	Buy Contracts	Sell Contracts
Eurodollar futures	$ 27,378	$ 47,960
Euro bond futures	49,443	41,345
Japan bond futures	51,475	-
Treasury futures	20,401	339,804
S&P futures	319,175	417

The exchange on which futures contracts are traded assumes the counterparty risk and generally requires margin payments to minimize such risk. The System pledges investment securities to provide the initial margin requirements on the futures contracts it buys. In addition to that collateral, the System also pledges securities on sales of securities that it does not presently own (short sales). The System enters into those short sales to neutralize the market risk of certain equity positions. The securities the System pledged as collateral on futures purchases and short sales at December 31, 2002 represent restricted assets.

Swap agreements provide for periodic payments between parties based on the net difference in the cash flows of underlying assets, indexes, or rates. During 2002, the System entered into swap arrangements to purchase commodity futures. Under the arrangement, the System receives the net return of the Goldman Sachs Commodity Index from the swap counterparty in return for the 90-day Treasury Bill rate, which it pays to the counterparty. The commodity swaps are used as an inflation hedge and settle on a monthly basis. In addition, during 2002, the System also entered into swap arrangements to gain equity exposure on its absolute return fund-of-fund investments. Under those arrangements, the System receives the net return of the S&P 500 Total Return Index in exchange for a short-term rate plus a spread. The System uses multiple contracts with counterparties to diversify its credit risk. The contracts have varying maturity dates ranging from March 19, 2003 through December 19, 2003.

The table below presents the System's swap exposure at December 31:

	Notional value	Receivable/(Payable)
Goldman Sachs Commodity Index	$ 324,503	$ 25,000
Interest rate	32,600	(729)
S&P 500 Total Return Index	2,378,538	(191,169)

The System generally requires collateral on these swaps based on the counterparty's credit rating in order to reduce the risk of counterparty nonperformance.

The System mitigates its legal risk on investment holdings, including the previously discussed instruments, by carefully selecting portfolio managers and extensively reviewing their documentation. It manages its exposure to market risk within risk limits set by management.

The System also indirectly holds foreign exchange contracts, futures contracts, and certain swap contracts through its investments in collective trust funds. Those collective trust funds directly and indirectly (through a securities lending collateral pool) invest in those instruments to hedge foreign exchange exposure, to synthetically create equity returns, and to manage interest rate risk by altering the average life of the portfolio.

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Discretely Presented Component Units

(amounts in thousands)

	Category 1	Category 2	Category 3	Total
Asset backed securities	$ -	$ 116,405	$ -	$ 116,405
Commercial paper	-	198,113	154,965	353,078
Common and preferred stocks	15,081,523	580	10	15,082,113
Corporate bonds and notes	3,606,399	166,626	121,010	3,894,035
Guaranteed investment contracts	102,390	-	-	102,390
International equities	6,329,856	-	-	6,329,856
International fixed income	1,189,225	-	-	1,189,225
Mortgage-backed securities	5,510,242	33,615	-	5,543,857
Repurchase agreements	67,501	83,606	40,098	191,205
State and municipal obligations	-	63,550	9,250	72,800
U.S. Treasury obligations	-	402,581	9,564	412,145
U.S. Government agency obligations	638,180	376,400	237,858	1,252,438
Various short-term investments	1,305,656	-	-	1,305,656
Total categorized investments	$ 33,830,972	$1,441,476	$ 572,755	$ 35,845,203

Investments not susceptible to credit risk categorization:

Investments owned by the Ben Franklin Technology Development Authority in Pennsylvania Treasury Common Investment Pool at June 30, 2003	19,661
Investments owned by the Pennsylvania Housing Finance Agency at June 30, 2003:	
Investment agreements	2,908
Mutual funds	185,808
Investments owned by the Pennsylvania Higher Education Assistance Agency at June 30, 2003:	
Guaranteed investment contracts	120,604
Investment agreements	19,990
Money market funds	111,975
Pennsylvania INVEST Program	78,769
Pennsylvania Treasury Common Investment Pool	108,764
Investments owned by the Pennsylvania Infrastructure Investment Authority in Pennsylvania Treasury Common Investment Pool at June 30, 2003	363,462
Guaranteed investment contracts owned by the Pennsylvania Turnpike Commission at May 31, 2003	276,382
Investments owned by the Public School Employees' Retirement System at June 30, 2003:	
Invested with Pennsylvania Treasury Department	1,410,100
Mutual funds	920,008
Private debt	1,153,106
Private equity	2,392,040
Real estate	1,934,156
Securities lending collateral	3,387,690
Securities lending investments	3,259,282
Venture capital	191,626
Money market investments owned by the Pennsylvania Property and Casualty Insurance Guaranty Association at December 31, 2002	500
Mutual funds owned by the Pennsylvania Life and Health Insurance Guaranty Association at December 31, 2002	1,039
Investments owned by the Insurance Fraud Prevention Authority in Pennsylvania Treasury Common Investment Pool at June 30, 2003	3,012
Investments owned by the State Public School Building Authority in Treasury INVEST Program at June 30, 2003	17,623
Investments owned by the Port of Pittsburgh Commission in Pennsylvania Treasury Common Investment Pool at June 30, 2003	1,811
Mutual funds and other investments owned by the State System of Higher Education at June 30, 2003	33,324
Investments owned by the Patient Safety Trust Authority at June 30, 2003:	
Pennsylvania Treasury Common Investment Pool	4,762
Securities lending collateral	1,070
Total temporary and long-term investments	$51,844,675

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

The total amount reported by discretely presented component units in the Pennsylvania Treasury Common Investment Pool is $501,472 at June 30, 2003; Common Investment Pool disclosures are included as part of Primary Government investment disclosures. Of the $51,844,675 in total temporary and long-term investments, non-fiduciary component units reported $2,036,723 in temporary investments and $2,314,072 in long-term investments; fiduciary component units reported $5,643,516 in temporary investments and $41,850,364 in long-term investments at June 30, 2003 (amounts in thousands). Fiduciary component unit investments are not included in government-wide financial statements.

The Public School Employees' Retirement System (PSERS), a Pension Trust fund, owns nearly 100 percent of the common and preferred stocks, 91 percent of the corporate bonds and notes, 100 percent of the international equities, 100 percent of the international fixed income, over 99 percent of the mortgage-backed securities, 100 percent of the real estate and 24 percent of the U.S. Government agency investments included in the above summary. The Pennsylvania Higher Education Assistance Agency owns 42 percent of commercial paper and 24 percent of guaranteed investment contracts. The Pennsylvania Turnpike Commission owns 55 percent of the guaranteed investment contracts, 72 percent of the state and municipal obligations, 40 percent of the repurchase agreements and 96 percent of the U.S. Treasury obligations. The State System of Higher Education owns 56 percent of the commercial paper, 100 percent of the asset-backed securities and 30 percent of the U.S. Government agency obligations. There were no violations of statutory authority or contractual provisions for investments during the fiscal year ended June 30, 2003.

Financial Instruments with Off-Balance Sheet Risk

Public School Employees' Retirements System (System)

The System enters into a variety of financial contracts, which include options and futures. The System also enters into foreign exchange positions, such as forward and spot contracts to hedge foreign exposure; collateralized mortgage obligations (CMOs); other forward contracts, and U.S. Treasury STRIPS. The System is not a dealer, but an end-user of these instruments. The contracts are used primarily to enhance performance and reduce the volatility of the portfolio. Short-term investments and cash equal to or greater than performance obligations under these contracts are maintained at all times. The System is exposed to credit risk in the event of nonperformance by counterparties to financial instruments. As the System generally enters into transactions only with high quality institutions, no losses associated with counterparty nonperformance on derivative financial instruments have been incurred. Legal risk is mitigated through selection of executing brokers and review of all documentation. The System is exposed to market risk, the risk that future changes in market conditions may make an instrument less valuable. Exposure to market risk is managed in accordance with risk limits set by senior management, through buying or selling instruments or entering into offsetting positions.

The notional or contractual amounts of derivatives indicate the extent of the System's involvement in the various types and uses of derivative financial instruments and do not measure the System's exposure to credit or market risks and do not necessarily represent amounts exchanged by the parties. The amounts exchanged are determined by reference to the notional amounts and the other terms of the derivatives.

The following table summarizes the aggregate notional or contractual amounts for the System's derivative financial instruments at June 30, 2003 (in thousands):

Futures contracts – long	$ 5,067,677
Futures contracts – short	2,727,179
Foreign exchange forward and spot contracts, gross	2,792,438
Options – calls purchased	85,070
Options – puts purchased	66,213
Options – calls sold	96,320
Options – puts sold	1,523,489

Futures contracts are contracts in which the buyer agrees to purchase and the seller agrees to make delivery of a specific financial instrument at a predetermined date and price. Gains and losses on future contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. Futures contracts are standardized and are traded on exchanges. The exchange assumes the risk that a counterparty will not pay and generally requires margin payments to minimize such risk. In addition, the System enters into short sales, sales of securities it does not presently own, to neutralize the market risk of certain equity positions. Initial margin requirements on futures contracts and

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

collateral for short sales are provided by investment securities pledged as collateral or by cash held in segregated accounts by the System's custodial bank or short sale broker. Although the System has the right to access individual pledged securities, it must maintain the amount pledged by substituting other securities for those accessed. The value of securities pledged and the amount of cash held at June 30, 2003 represent a restriction on the amount of assets available as of year-end to use for other purposes.

Option contracts provide the option purchaser with the right, but not the obligation, to buy or sell the underlying security at a set price during a period or at a specified date. The option writer is obligated to buy or sell the underlying security if the option purchaser chooses to exercise the option. The System generally uses exchange listed currency, index, stock, and futures options. The System has authorized an investment manager to write covered call stock index option spreads up to a notional amount of $500,000,000.

Foreign exchange contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. The contracts reported above primarily include forwards. The $2,792,438,000 of foreign currency contracts outstanding at June 30, 2003 consist of "buy" contracts, which represent the U.S. dollar equivalents of commitments to purchase foreign currencies of $1,766,479,000 and "sell" contracts, which represent U.S. dollar equivalents of commitments to sell foreign currencies of $1,025,959,000. The unrealized gain on contracts of $3,234,000 at June 30, 2003 is included in the System's net assets and represents the fair value of the contracts.

The System also invests in mortgage-backed securities (MBS) such as CMOs and MBS forwards to maximize yields. These securities are sensitive to prepayments by mortgagees, which may result from a drop in interest rates. The MBS forwards are subject to credit risk in the event of nonperformance by counterparties. The fair value of CMOs at June 30, 2003 is $2,325,381,000.

The System invests in U.S. Treasury STRIPS, which essentially act as zero coupon bonds and are subject to market volatility from an increase or decrease in interest rates. Through certain collective trust funds, the System also indirectly holds various derivative financial instruments. The collective trust funds invest in futures and options thereon; forward foreign currency contracts; options; interest rates, currency, equity, index, and total return swaps; interest-only STRIPS, and CMOs, to enhance the performance and reduce the volatility of their portfolios. Swap agreements are used to modify investment returns or interest rates on investments in the collective trust funds. Swap transactions involve the exchange of investment returns or interest rate payments without the exchange of the underlying principal amounts. These swaps expose the collective trust funds entering into these types of arrangements to credit risk in the event of nonperformance by counterparties.

Philadelphia Regional Port Authority (Authority)

In December 2002, the Authority entered into an interest rate swaption transaction (Swaption) with a securities investment firm (counterparty) in connection with the planned refunding of the 1993 Lease Revenue Bonds. Under the terms of the Swaption, the counterparty paid an up-front premium of $5,820,000 to the Authority and in return the Authority granted the counterparty the right, but not the obligation, to execute an interest rate swap (Swap) with the Authority. Under the Swap, the Authority will pay a fixed rate of interest of 5.19% on the notional amount of the 2003 refunding lease revenue bonds then outstanding to the counterparty, commencing on September 1, 2003 and ending on September 1, 2020, in exchange for the counterparty's payment of a floating rate of interest, which will be equal to the floating rate of interest on the 2003 refunding lease revenue bonds unless certain events occur which would permit the counterparty to pay an alternate floating rate of interest, as defined.

Upon the occurrence of certain events as described in the Swap, the Authority may be liable for the difference between a higher variable interest rate on the 2003 refunding lease revenue bonds and the interest rate payable by the counterparty. The Authority has the option, subject to certain conditions, to terminate the Swap. Additionally, the Swap provides for other Additional Termination Events, as defined, that may entitle the Authority or the counterparty to terminate the Swap. A termination of the Swap may result in the Authority making or receiving a termination payment.

The counterparty has given notice to the Authority that it intends to exercise its right under the Swaption, effective July 10, 2003.

In connection with the Swaption transaction, the Authority and the Commonwealth entered into the Second Amendment to Agreement of Lease and the First Amendment to Agreement of Sublease.

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Pennsylvania Industrial Development Authority (Authority)
The Authority entered into a derivative financial contract on September 4, 2002 and J. P. Morgan Chase & Co. (J. P. Morgan). The contract provided the Authority with an upfront receipt of $9,525,000 in exchange for giving J. P. Morgan the option (Swaption) to require the Authority to enter into a pay fixed receive variable interest rate swap as of January 1, 2004. This transaction monetizes the call option embedded within the 1996 Economic Development Revenue Bonds as of the execution date.

The Authority's initial receipt of $9,525,000 was based on a notional amount of $98,960,000. The counterparty has the right to exercise the agreement on January 1, 2004, the Authority's 1996 Bonds' first call date. If exercised, the swap will require the Authority to pay a fixed rate of 5.12% and receive a rate equivalent to 68% of the London Interbank Offering Rate (LIBOR).

Due to decreases in interest rates by the United States Federal Reserve System, the swaption has increased in fair value causing an increased liability to the Authority. This liability is reflected in the statement of net assets at its fair value as of June 30, 2003, which is $15,713,550. The fair market value above included both the market value of the option and the present value of the future net settlements required under the swap.

Pennsylvania Turnpike Commission (Commission)
In June 2001, the Commission entered into three forward interest swap agreements on a portion of its debt to synthetically convert variable interest rates to fixed interest rates and thus hedge its variable rate exposure as well as preserve lower interest rates. These swaps were placed on the Series U Bonds of 2001, Series A Bonds of 2002 and Series B Bonds of 2002 with five different swap providers (counterparties). Based on these swap agreements, the Commission owes interest calculated at a fixed rate to the counterparties to the swaps. In return, the counterparties owe the Commission interest based on a variable rate that approximates the rate on the bonds. Only the net difference in interest payments is actually exchanged with the counterparties. The total notional amount of these swaps was approximately $602 million at May 31, 2003. The $602 million in bond principal is not exchanged, it is only the basis on which the interest payments are calculated. Additonally, the Commission continues to pay interest to the bondholders at the variable rate on the bonds.

In February 2002, the Commission entered into a swap option (swaption) related to Series A of 2002 bonds. The Commission sold its option to terminate the swaption in exchange for an upfront payment of approximately $10 million that it has recorded as deferred revenue and will amortize into income over the life of the swaption.

Following is a summary of the swaps in place as of May 31, 2003. These swap agreements contain certain risks as described below:

Swap	Notional Value	Final Maturity	Floating Rate Index (Receivable)	Fixed Rate (Payable)	Fair Value from (to) Counterparty
Series U 2001	$127,365,000	12/01/2019	67% of 1 mo. LIBOR (1)	4.21%	$ (20,771,543)
	42,455,000	12/10/2019			(7,007,448)
	72,066,250	12/01/2030	67% of 1 mo. LIBOR (1)	4.403%	(14,814,603)
Series A 2002	144,070,000	12/01/2030			(29,408,597)
	72,066,250	12/01/2030			(14,926,703)
	36,077,500	12/01/2012	BMA (2)	4.538%	(3,637,251)
Series B 2002	72,155,000	12/01/2012			(7,310,668)
	36,077,500				(3,614,136)
Total	$602,332,500				$(101,490,949)

(1) 1 month LIBOR was 1.32% at May 31, 2003
(2) BMA was 1.19% at May 31, 2003

- **Credit Risk** – As of May 31, 2003, the Commission was not exposed to credit risk because all of the swaps had negative fair values. However, should interest rates change and the fair values of the swaps become positive, the Commission would be exposed to credit risk in the amount of the derivatives' fair values. To mitigate the potential for credit risk, the swap agreements include collateral provisions in the event of downgrades to the swap counterparties' credit ratings. Collateral would be posted with a third-party custodian and would be in the form of cash, U.S. Treasury Obligations, or U.S.

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Government Agency Securities. The credit ratings of the swap providers as of May 31, 2003 were AAA to AA- and Aaa to Aa3 to Standard and Poor's and Moody's, respectively.

- **Interest Rate Risk** – The Commission will be exposed to variable interest rates if one or more of the swap providers defaults or if a swap is terminated.

- **Basis Risk** – The underlying variable rates for the Commission's Series U and Series A bonds are based on BMA while the Series U and Series A swaps are based on a percentage of LIBOR. Therefore, the Commission is exposed to basis risk to the extent BMA exceeds 67% of one month LIBOR.

- **Termination Risk** – The swap document may be terminated due to a number of circumstances and the Commission retains the option to terminate the swap at any time. If the Commission were required to make a termination payment because of a termination event (by either party), then the Commission would have the option to enter into a new swap to match the remaining amortization of the underlying bonds and apply the payment it received toward the termination payment. It is the Commission's intent to maintain the swap transactions for the life of the financing.

Securities Lending Program

The Treasury Department provides a securities lending program authorized by the Fiscal Code, which provides the Treasury Department with numerous custodial responsibilities; the securities program is an integral part of the custodial function. A contract between the Treasury Department and its custodian, acting as lending agent, provides that the custodian lends securities owned by the participants to independent brokers, dealers and banks, acting as borrowers.

Lending agreements between the custodian and the borrowers require that the custodian receive collateral from the borrowers in exchange for the securities lent. For securities lent which are not denominated in United States dollars or whose primary trading market is located outside the United States, the fair value of the collateral received must be at least 105 percent of the fair value of the securities lent. For all other securities lent, the fair value of the collateral received must be at least 102 percent. Securities lent consist of both domestic and foreign equity securities and United States Treasury and foreign debt obligations. Almost all collateral received consists of cash; a very small portion of collateral received consists of letters of credit, United States Treasury, corporate and/or foreign debt obligations. Collateral is marked to market daily. Additional collateral from borrowers is required if the fair value of the collateral received declines below lending agreement requirements. The lending agent cannot pledge or sell collateral securities received unless the borrower defaults. Accordingly, neither collateral securities received from borrowers nor the related obligations to borrowers are reported.

To the extent collateral received consists of cash, the lending agent may use or invest the cash in accordance with reinvestment guidelines approved by the Treasury Department. Either the participant or the borrower may terminate lending agreements on demand. Lending agreements are typically of very short duration - usually overnight. Therefore, the duration of lending agreements does not generally match the maturities of the investments made with cash collateral. The resulting rate risk is mitigated by the lending agent's ability to reallocate lending agreements among program participants.

The program requires that the lending agent indemnify the Treasury Department for all claims, liabilities and costs resulting from the lending agent's negligence or intentional misconduct. During the fiscal year ended June 30, 2003 (December 31, 2002 for the **SWIF**, the SERS and the Deferred Compensation Fund), there were no failures by any borrower to return securities lent or pay distributions thereon. Also, there were no losses resulting from a lending agent or borrower default and there were no Treasury Department restrictions on the amount of the loans that could be made.

At June 30, 2003 (December 31, 2002 for the **SWIF**, the SERS and the Deferred Compensation Fund), there was no Treasury Department or participant credit risk to the borrowers because the fair value of collateral received was greater than the fair value of the securities lent, consistent with the lending agreements outstanding. The carrying amount and fair value of the securities lent, along with type of investments lent, are (amounts in thousands):

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

	Securities Lent Amount	U.S. Treasury Obligations	U.S. Government Agency Obligations	Corporate Bonds and Notes	Common and Preferred Stocks
General Fund……..	$ 172,701	$ 111,354	$ 24,539	$ 28,239	$ 8,569
State Lottery Fund…….	3,136	3,136	-	-	-
Motor License Fund……...	73,762	43,177	14,282	9,818	6,485
State Workmen's Insurance Fund……	550,581	428,746	87,127	32,271	2,437
Tuition Payment Fund……...	90,052	48,316	17,214	5,734	18,788
Workmen's Compensation Security Trust Fund….	78,862	41,983	11,262	11,612	14,005
Deferred Compensation Fund	91,986	44,139	36,735	11,112	-
State Employees' Retirement System	1,310,333	626,901	47,905	314,173	321,354
Public School Employees' Retirement System	3,259,282	-	712,796	728,576	1,817,910
Underground Storage Tank Indemnification Fund	22,084	7,593	6,402	2,128	5,961

At June 30, 2003 the Treasury Common Investment Pool (TIP) lent $1,355,908 in securities; the related cash collateral received was $1,434,597. On a pro-rata basis, TIP participants collectively reported cash collateral of $1,306,645 as part of temporary investments and related securities lending obligation of $1,306,645 associated with TIP securities lending balances at June 30, 2003. The composition of the lent securities of $1,355,908 was: U.S. Treasury obligations, $382,560; U.S. government agencies, $721,615; corporate bonds and notes, $215,210; and common and preferred stocks, $36,523 (in thousands).

NOTE E – CAPITAL ASSETS

A summary of capital assets by category at June 30, 2003 is as follows (amounts in thousands):

	Primary Government			Discretely Presented
	Governmental Activities		Business-Type Activities	Component Units
	General Capital Assets	Internal Service Funds	Enterprise Funds	Non-Fiduciary Funds	Fiduciary Funds
Land	$ 297,855	$ 6	$ 323	$ 141,328	$ -
Highway right-of-way	1,027,800	-	-	-	-
Buildings	3,949,138	3,996	25,727	1,518,380	-
Improvements other than buildings	412,780	291	-	169,026	-
Machinery and equipment	583,086	95,034	71,243	500,602	-
Library books and other	-	-	-	147,253	-
Turnpike infrastructure	-	-	-	3,749,954	-
Highway infrastructure	13,814,760	-	-	-	-
Bridge infrastructure	5,758,394	-	-	-	-
Waterway infrastructure	1,700	-	-	-	-
Other infrastructure	8,614	-	-	-	-
Construction in progress	1,159,378	-	6,708	540,219	-
Highway and bridge construction in progress.	1,875,700	-	-		-
Total	$ 28,889,205	$ 99,327	$ 104,001	$ 6,766,762	$ -

Changes in general capital assets for the fiscal year ended June 30, 2003 are as follows (amounts in thousands):

	Balance June 30, 2002	Additions	Retirements	Balance June 30, 2003
Non-Depreciable General Capital Assets:				
Land	$ 287,010	$ 11,575	$ 730	$ 297,855
Highway right-of-way	940,300	87,500	-	1,027,800
Construction in progress	1,101,165	370,231	312,018	1,159,378
Transportation construction in progress	1,522,400	1,514,700	1,161,400	1,875,700
Subtotal	3,850,875	1,984,006	1,474,148	4,360,733
Depreciable General Capital Assets:				
Buildings	3,693,636	276,930	21,428	3,949,138
Improvements other than buildings	386,556	26,300	76	412,780
Machinery and equipment	538,067	59,966	14,947	583,086
Highway infrastructure	13,025,900	788,860	-	13,814,760
Bridge infrastructure	5,369,900	388,494	-	5,758,394
Other infrastructure	8,614	-	-	8,614
Waterway infrastructure	798	902	-	1,700
Subtotal	23,023,471	1,541,452	36,451	24,528,472
Total general capital assets	$ 26,874,346	$ 3,525,458	$ 1,510,599	$ 28,889,205

NOTE E – CAPITAL ASSETS (continued)

Changes in General Capital Assets Accumulated Depreciation for the fiscal year ended June 30, 2003 are as follows (amounts in thousands):

	Balance June 30, 2002	Additions	Retirements	Balance June 30, 2003
Buildings	$ 1,628,203	$ 104,585	$ 16,817	$ 1,715,971
Improvements other than buildings	158,018	13,739	32	171,725
Machinery and equipment	286,624	36,001	14,200	308,425
Highway infrastructure	5,247,500	537,206	-	5,784,706
Bridge infrastructure	1,053,600	111,262	-	1,164,862
Waterway infrastructure	-	30	-	30
Other infrastructure	219	1,353	-	1,572
Total accumulated depreciation….	$ 8,374,164	$ 804,176	$ 31,049	$ 9,147,291

Depreciation expense, by function, related to General Capital Assets for the fiscal year ended June 30, 2003 is as follows (amounts in thousands):

Direction and supportive services	$ 24,245
Protection of persons and property	64,254
Public education	22,084
Health and human services	12,510
Recreation and cultural enrichment	8,484
Transportation	672,599
Total depreciation expense	$ 804,176

Changes in Internal Service fund capital assets for the fiscal year ended June 30, 2003 are as follows (amounts in thousands):

	Balance June 30, 2002	Additions	Retirements	Balance June 30, 2003
Non-Depreciable Capital Assets:				
Land	$ 6	$ -	$ -	$ 6
Subtotal	6	-	-	6
Depreciable Capital Assets:				
Buildings	3,997	-	-	3,997
Improvements other than buildings	291	-	-	291
Machinery and equipment	94,527	15,824	15,317	95,034
Subtotal	98,815	15,824	15,317	99,322
Total Internal Service fund capital assets	$ 98,821	$ 15,824	$ 15,317	$ 99,328

NOTE E – CAPITAL ASSETS (continued)

Changes in Internal Service fund capital assets accumulated depreciation for the fiscal year ended June 30, 2003 are as follows (amounts in thousands):

	Balance June 30, 2002	Additions	Retirements	Balance June 30, 2003
Buildings	$ 1,782	$ 114	$ -	$ 1,896
Improvements other than buildings	105	330	-	435
Machinery and equipment	48,267	11,705	11,757	48,215
Total accumulated depreciation….	$ 50,154	$ 12,149	$ 11,757	$ 50,546

Changes in Enterprise fund capital assets for the fiscal year ended June 30, 2003 are as follows (amounts in thousands):

	Balance June 30, 2002	Additions	Retirements	Balance June 30, 2003
Non-Depreciable Capital Assets:				
Land	$ 323	$ -	$ -	$ 323
Construction in progress	-	6,708	-	6,708
Subtotal	323	6,708	-	7,031
Depreciable Capital Assets:				
Buildings	17,265	8,462	-	25,727
Machinery and equipment	70,460	1,953	1,170	71,243
Subtotal	87,725	10,415	1,170	96,970
Total Enterprise fund capital assets	$ 88,048	$ 17,123	$ 1,170	$ 104,001

Changes in Enterprise fund capital assets accumulated depreciation for the fiscal year ended June 30, 2003 are as follows (amounts in thousands):

	Balance June 30, 2002	Additions	Retirements	Balance June 30, 2003
Buildings	$ 10,284	$ 763	$ -	$ 11,047
Machinery and equipment	47,338	4,231	1,036	50,533
Total accumulated depreciation….	$ 57,622	$ 4,994	$ 1,036	$ 61,580

NOTE E – CAPITAL ASSETS (continued)

Construction in progress included in general capital assets at June 30, 2003 includes project information as follows (amounts in thousands):

	Project Authorization	Expended Through June 30, 2003: Amounts Previously Capitalized	Expended Through June 30, 2003: Amounts Not Capitalized To Date	Authorization Available
Department of Corrections Institutions	$ 851,824	$ 175,884	$ 506,751	$ 169,189
Capitol Complex	898,247	234,355	315,556	348,336
Educational Institutions	246,153	82,117	89,859	74,177
State Parks and Forests	133.554	11,586	74,898	47,070
Agriculture Facilities	104,940	89,192	2,341	13,407
State-wide Radio Project	100,243	-	95,814	4,429
Veterans Homes and Military Armories	60,999	22,526	18,398	20,075
Transportation Facilities	52,254	22,969	14,672	14,613
Department of Public Welfare Institutions	38,209	17,445	8,936	11,828
State Police Facilities	36,125	10,168	17,719	8,238
Historical and Museum Commission Facilities	34,638	10,186	13,606	10,846
Other	9,181	6,082	828	2,271
Total	$2,566,367	$ 682,510	$ 1,159,378	$ 724,479

The Pennsylvania Turnpike Commission, a discretely presented component unit, capitalized interest costs of $1.5 million during its fiscal year ended May 31, 2003.

The Commonwealth's initial valuation of general capital assets was made as of June 30, 1986 using appraisal and historical cost reconstruction techniques. Subsequent to June 30, 1986, general capital asset acquisitions are reported at cost or, for donations or confiscations, at fair market value. At June 30, 2003 the amount of general capital assets related to the initial 1986 valuation amounts to $1,738 million and does not include highway, bridge or waterway infrastructure.

NOTE F – TUITION BENEFITS PAYABLE AND INSURANCE LOSS LIABILITY – PROPRIETARY FUNDS AND BUSINESS-TYPE ACTIVITIES

Tuition Benefits Payable

The reported liability for tuition benefits payable of $658 million of the **Tuition Payment Fund**, an Enterprise Fund, at June 30, 2003, is based on several actuarial assumptions, including those related to future sales of tuition credits, tuition cost increases, investment experience and program expenses for the Tuition Account Program. The June 30, 2003 actuarial analysis includes the effects of a minor change in assumptions for expenses from the June 30, 2002 analysis. Per-unit tuition credit expense continues to decline as the Program expands. The per-unit credit expense assumption was reduced from 54 to 38 cents. The effect of this change increased the aggregate actuarial reserve (actuarial value of assets less liabilities) by $1.8 million.

Insurance Loss Liability

The reported insurance loss liability of the **State Workmen's Insurance Fund** (SWIF), an Enterprise Fund, is primarily based on historical claims experience. One of the assumptions used to determine the reported liability amount includes using a 4.0 percent discount rate at December 31, 2002 and 2001, respectively. There is uncertainty as to whether the reported liability will be supported by future claim experience, including payments; this uncertainty must be considered when evaluating the reported insurance loss liability.

For the calendar years ended December 31, 2002 and 2001, the following summary provides information on prior year reported insurance loss liability, incurred claims and payments, and current year reported insurance loss liability (amounts in thousands):

Year Ended December 31	Prior Year Liability	Incurred Claims		Payments		Current Year Liability
		Current	Prior	Current	Prior	
2002	$1,032,506	$ 205,952	$ (41,264)	$ 31,034	$ 126,628	$1,039,532
2001	$1,054,252	$ 127,025	$ (4,267)	$ 15,322	$ 129,182	$1,032,506

NOTE G - TAXES, LOANS AND LEASE RENTALS RECEIVABLE

Taxes Receivable: Taxes receivable at June 30, 2003 consisted of the following (amounts in thousands):

	Statement of Net Assets
	Governmental Activities
Sales and use	$ 1,001,139
Personal income	492,592
Corporation	724,002
Liquid fuels	144,785
Inheritance	405,886
Other	67,030
Total	$ 2,835,434

Governmental activities taxes receivable includes $764,771 expected to be collected after June 30, 2004 (amounts in thousands).

	Fund Balance Sheets			
	General	Motor License	Nonmajor Governmental Funds	Fiduciary Funds
Sales and use	$ 1,001,139	$ -	$ -	$ -
Personal income	492,592	-	-	-
Corporation	724,002	-	-	-
Liquid fuels	-	144,785	-	1
Inheritance	405,886	-	-	-
Other	49,482	-	17,548	23,910
Total	$ 2,673,101	$ 144,785	$ 17,548	$ 23,911

General Fund taxes receivable includes $764,771 expected to be collected after June 30, 2004 (amounts in thousands).

Loans Receivable: Loans receivable at June 30, 2003 consisted of the following (amounts in thousands):

	Primary Government		
	Governmental Activities Special Revenue Funds	Business Type Activities Enterprise Funds	Discretely Presented Component Units
Mortgage loans	$ -	$ -	$ 2,724,714
Student loans	-	-	4,273,282
Economic development loans	40,808	174,197	619,403
Drinking water, storm water and sewer system loans	10,697	-	1,357,981
Volunteer fire company loans	-	112,279	-
Other notes and loans	15,835	-	7,181
	67,340	286,476	8,982,561
Less: allowance for uncollectible amounts	29,075	52,553	214,846
Loans receivable, net	$ 38,265	$ 233,923	$ 8,767,715

Special Revenue funds report $21,257 in loans due after June 30, 2004 and the Enterprise funds report $192,322 in loans due after June 30, 2004. Discretely presented component units reported $7,830,631 in loans receivable due after June 30, 2004 (amounts in thousands).

NOTE G - TAXES, LOANS AND LEASE RENTALS RECEIVABLE (continued)

The **General Fund** reported $9,691 in loans receivable for program objectives, of which $9,470 represents governmental activities lending and of which $5,923 is due after June 30, 2004. Agency Funds reported $4,909 in loans receivable to replace underground storage tanks, all of which are due after June 30, 2004 (amounts in thousands).

Lease Rentals Receivable: The Capital Facilities Fund, a Capital Projects fund, reports amounts related to construction projects for educational institutions funded through the issuance of general obligation bonds, the principal and interest of which are paid through the collection of lease rental payments and deposited in the Capital Debt Fund, a Debt Service fund. At the conclusion of the lease terms, the project facilities are conveyed to the educational institutions. Accordingly, these lease arrangements are classified as direct financing leases. Lease rental receivables and associated deferred revenue equal to the principal lease payments to be received are recorded in the Capital Debt Fund. At June 30, 2003 the total minimum lease payments to be received were $1.4 million and the present value of the lease payments was $1.3 million, the difference representing interest of $.1 million. The Pennsylvania Industrial Development Authority, a discretely presented component unit, reported a lease rental receivable with total minimum payments of $28 million, present value of $19 million and interest of $9 million at June 30, 2003. Minimum lease payments receivable for the five fiscal years succeeding June 30, 2003 are as follows (amounts in thousands):

Fiscal Year Ending June 30	Primary Government	Discretely Presented Component Units
2004.....	$ 193	$ 634
2005.....	194	634
2006.....	193	2,923
2007.....	194	5,212
2008.....	193	5,212

Except for $193 owed to the primary government and $634 owed to discretely presented component units, all amounts receivable under lease rentals are due after June 30, 2004 (amounts in thousands).

NOTE H – INTERNAL/INTERFUND BALANCES AND TRANSFERS

In the Statement of Net Assets, reported internal balances assets/liabilities for governmental activities differ from internal balances assets/liabilities for business-type activities because the **State Workmen's Insurance Fund**, an Enterprise Fund, and the State Employees Retirement System, a Pension Trust Fund, report for their fiscal years ended December 31, 2002.

The composition of governmental and proprietary funds interfund balances reported at June 30, 2003 is as follows, with Major Fund titles in bold. Aggregate nonmajor governmental funds receivables from other funds and from component units, respectively, amount to $66,370 and $4,814; aggregate nonmajor enterprise funds receivables amount to $2,475 and $3; aggregate internal service funds receivables amount to $21,630 and $1,432 (amounts in thousands):

	DUE FROM		DUE TO	
FUND TYPE/FUND PRIMARY GOVERNMENT	**OTHER FUNDS**	**COMPONENT UNITS**	**OTHER FUNDS**	**COMPONENT UNITS**
General Fund	$ 47,171	$ 1,341	$ 94,724	$ -
Special Revenue:				
Motor License Fund	14,854	-	25,691	7,522
Tobacco Settlement Fund	6,167	-	19,535	-
Hazardous Sites Clean-up Fund	797	-	5,114	-
State Racing Fund	-	-	6,538	-
Vocational Rehabilitation Fund	56	-	1,918	-
Pharmaceutical Assistance Fund	4,973	-	-	-
Agricultural Conservation Easement Fund	10,243	-	-	-
Public Transportation Assistance Fund	3,803	-	545	-
Other Funds	1,616	-	8,245	-
	42,509	-	67,586	7,522
Debt Service:				
Pennsylvania Infrastructure Investment Authority Redemption Fund	-	-	-	-
Other Funds	13	-	-	-
	13	-	-	-
Capital Projects:				
Capital Facilities Fund	39,681	4,814	4	-
Keystone Recreation, Park and Conservation Fund	5,188	-	700	-
	44,869	4,814	704	-
Enterprise:				
Unemployment Compensation Fund	3,109	371	2	-
State Lottery Fund	-	-	284	-
State Workmen's Insurance Fund	200	-	3,948	-
Tuition Payment Fund	-	-	20	-
State Stores Fund	359	-	21,461	-
Rehabilitation Center Fund	1,833	-	40	-
Other Funds	283	3	2,871	-
	5,784	374	28,626	-
Internal Service:				
Purchasing Fund	13,577	1,425	329	1
Manufacturing Fund	8,053	7	54	-
	21,630	1,432	383	1
Pension Trust:				
State Employees' Retirement System	1,205	-	-	-
	1,205	-	-	-
Total primary government	$ 163,181	$ 7,961	$ 192,023	$ 7,523

NOTE H – INTERNAL/INTERFUND BALANCES AND TRANSFERS (continued)

DISCRETELY PRESENTED COMPONENT UNITS	DUE FROM PRIMARY GOVERNMENT	DUE FROM COMPONENT UNITS	DUE TO PRIMARY GOVERNMENT	DUE TO COMPONENT UNITS
Non-fiduciary:				
Pennsylvania Turnpike Commission	$ 7,522	$ -	$ 4,893	$ -
Pennsylvania Infrastructure Investment Authority	-	76	116	22
Other Component Units	-	-	7	-
	7,522	76	5,016	22
Fiduciary:				
Public School Employees Retirement System	2,075	-	1,091	-
Total discretely presented component units	$ 9,597	$ 76	$ 6,107	$ 22

The amount of total reported interfund receivables of $180,815 does not agree with total reported interfund payables of $205,675 at June 30, 2003 due to different fiscal year ends and reporting differences for certain Funds included in the Fund Financial Statements at June 30, 2003. The amount reported for the Pennsylvania Turnpike Commission, a discretely presented component unit, is reported at its fiscal year ended May 31, 2003 and the amounts reported as interfund balances for the State Employees' Retirement System and the Deferred Compensation Fund, Pension Trust Funds, the INVEST Program for Local Governments, an Investment Trust Fund and the **State Workmen's Insurance Fund** and State Stores Fund, Enterprise Funds, are reported at their fiscal years ended December 31, 2002 and June 24, 2003. The following presents a reconciliation of interfund balances reported at June 30, 2003 and those amounts which would have been reported if all Funds reported at the same fiscal year end (amounts in thousands):

Due from other funds at June 30, 2003	$ 162,307
Due from fiduciary funds at June 30, 2003	874
Due from primary government at June 30, 2003	9,597
Due from component units at June 30, 2003	8,037
Reported Interfund Receivables	180,815
State Workmen's Insurance Fund increase in receivables from January 1, 2003 through June 30, 2003	198
State Employees' Retirement System increase in receivables from January 1, 2003 through June 30, 2003	2,171
Interfund receivables reported as accounts receivable by component units	2,053
Interfund receivables adjustments	(22)
Interfund receivables reported as accounts receivable by Fiduciary Funds	5,614
Reconciled Interfund Receivables	$ 190,829
Due to other funds at June 30, 2003	$ 183,350
Due to fiduciary funds at June 30, 2003	8,673
Due to primary government at June 30, 2003	6,107
Due to component units at June 30, 2003	7,545
Reported Interfund Payables	205,675
State Employees' Retirement System increase in payables from January 1, 2003 through June 30, 2003	764
State Workmen's Insurance Fund decrease in payables from January 1, 2003 through June 30, 2003	(3,605)

NOTE H – INTERNAL/INTERFUND BALANCES AND TRANSFERS (continued)

Deferred Compensation Fund increase in payables from January 1, 2003 through June 30, 2003	15
State Stores Fund decrease in payables from June 25 to June 30, 2003	(18,527)
Interfund payables reported as accounts payable by component units	6,323
Interfund payables reported as accounts payable by Fiduciary Funds	184
Reconciled Interfund Payables	$ 190,829

At June 30, 2003 the **General Fund** reported Advances to Other Funds of $114,108. Specifically, this amount has been advanced as follows: $2,300 to the **State Workmen's Insurance Fund** and $85,000 to the State Stores Fund, an Enterprise Fund, $2,175 to the **Motor License Fund**, $10,333 to the Pharmaceutical Assistance Fund, Special Revenue Funds, and $14,300 to the Purchasing Fund, an Internal Service Fund. These amounts have been reported by the respective owing Funds as Advances from Other Funds, except for the **State Workmen's Insurance Fund**, which has reported an advance of $1,626 at its fiscal year ended December 31, 2002 and the Purchasing Fund, which reports a $14,300 "other" liability (amounts in thousands). At June 30, 2003 the Hazardous Sites Cleanup Fund, a Special Revenue Fund, has reported an Advance to Other Funds of $3,000. This amount was advanced to the Small Business First Fund, an Enterprise Fund. The Underground Storage Tank Fund, an Agency Fund advanced $100,000 (amounts in thousands) to the **General Fund** at June 30, 2003.

In the Statement of Net Assets, only advances between governmental activities and business-type activities are reported.

A summary of transfers reported for the fiscal year ended June 30, 2003 is as follows, with Major Fund titles in bold. Aggregate nonmajor governmental fund transfers from other funds amount to $1,201,120 during June 30, 2003 and include a $395,000 transfer from the **State Lottery Fund** to the Pharmaceutical Assistance Fund (amounts in thousands):

PRIMARY GOVERNMENT	Transfers In	Transfers Out
General Fund	$ 425,875	$ 903,078
Special Revenue:		
Tobacco Settlement Fund	-	34,682
Motor License Fund	-	60,243
Hazardous Sites Clean-up Fund	-	26,815
State Racing Fund	-	6,515
Vocational Rehabilitation Fund	38,237	-
Pharmaceutical Assistance Fund	439,943	-
Water Facilities Loan Fund	-	-
Environmental Stewardship Fund	30,000	13,854
Other Funds	35,658	42,246
	543,838	184,355
Debt Service:		
Land and Water Development Sinking Fund	3,937	-
Water Facilities Loan Redemption Fund	8,309	-
Capital Debt Fund	715,344	-
Local Criminal Justice Sinking Fund	8,096	-
Agricultural Conservation Easement Sinking Fund	5,756	-
Keystone Recreation, Park and Conservation Fund	3,854	-

NOTE H – INTERNAL/INTERFUND BALANCES AND TRANSFERS (continued)

TRANSFERS (continued from previous page)

	Transfers In	Transfers Out
Debt Service (continued):		
Disaster Relief Redemption Fund	9,716	-
Pennsylvania Economic Revitalization Sinking Fund	1,729	-
Volunteer Company Loan Sinking Fund	2,048	-
Other Funds	1,037	-
	759,826	-
Capital Projects:		
Capital Facilities Fund	-	90,000
Keystone Parks & Recreation Fund	-	300
	-	90,300
Enterprise:		
State Lottery Fund	-	395,000
State Stores Fund	-	156,476
Coal and Clay Mine Subsidence	-	330
	-	551,806
Total primary governments	$1,729,539	$1,729,539

Total primary government governmental funds transfers between governmental funds of $1,177,733 have been eliminated in the Statement of Activities; total business-type activities transfers of $551,806 to governmental activities are reported.

Assigned Investment Income: Certain funds, as follows, receive but do not financially report investment income that is assigned to (and reported by) another fund for legal or contractual reasons. Investment income and related interfund transfers are reported by those funds which assign/receive investment income for other than legal/contractual reasons (in thousands).

Assigning Fund	Receiving Fund	Reason	Amount
Liquor License	**General**	Legal/contractual	$ 42
Liquid Fuels Tax	**Motor License**	Legal/contractual	207
Land and Water Development	Land and Water Development Sinking	Legal/contractual	33
Remining Financial Assurance	Land and Water Development Sinking	Other than legal/contractual	67
PA Economic Revitalization	PA Economic Revitalization Sinking	Other than legal/contractual	6
Fire Insurance Tax	State Insurance	Legal/contractual	458
Fire Insurance Tax	Municipal Pension Aid	Legal/contractual	191

NOTE I - RETIREMENT AND OTHER POSTEMPLOYMENT BENEFITS

Pension Systems

Commonwealth laws established contributory defined benefit pension plans covering substantially all Commonwealth and public school employees. Commonwealth employees are members of the State Employees' Retirement System (SERS), a blended component unit. The SERS is the only blended component unit in the financial reporting entity and it is the only pension trust fund included in the primary government. Public school employees are members of the Public School Employees' Retirement System (PSERS), a discretely presented component unit. The PSERS is the only Fiduciary Fund reported as a discretely presented component unit. Both the SERS and the PSERS issue stand-alone financial statements which are available to the public. Written requests for financial statements should be directed to the following addresses:

State Employees' Retirement System
30 North Third Street, Executive Office
P.O. Box 1147
Harrisburg, PA 17108

Public School Employees' Retirement System
Bureau of Communications
P.O. Box 125
Harrisburg, PA 17108

State Employees' Retirement System

Plan Description: The SERS is the administrator of a cost-sharing multiple-employer defined benefit retirement system established to provide pension benefits for employees of state government and certain other organizations. At December 31, 2002 there were 105 employer state agencies and other organizations participating in the SERS. The SERS provides retirement, death, and disability benefits. Retirement benefits vest after 5 years of credited service. Employees who retire at age 60 with three years of service, or with 35 years of service if under age 60, are entitled to a normal (unreduced) annual retirement benefit. Members of the General Assembly and certain employees classified in hazardous duty positions can retire with full benefits at age 50 with at least three years of service.

Article II of the Pennsylvania Constitution provides the General Assembly the authority to establish or amend benefit provisions. Act 2001-9, signed into law on May 17, 2001 established Class AA membership whereby, generally, annual full retirement benefits for electing active members is 2.5 percent of the member's highest three-year average salary (final average salary) multiplied by years of service. State employees hired after June 30, 2001 are Class AA members. Members hired before May 17, 2001 had the option, but were not required, to elect Class AA membership. Substantially all eligible members chose the Class AA option. For legislators in office on May 17, 2001 Act 2001-9 established Class D-4 membership whereby the general annual benefit is 3 percent of final average salary for each year of service.

The general annual benefit for full retirement for Class A members is 2 percent of the member's final average salary multiplied by years of service. State police troopers are entitled to an annual benefit equal to a percentage of their highest annual salary (excluding their year of retirement). The annual benefit is 75 percent of salary for 25 or more years of service and 50 percent of salary for 20-24 years of service. Judges are entitled to a benefit of 4 percent of final average salary for each of the first 10 years of service and 3 percent for subsequent years. District Justices are entitled to a benefit of 3 percent of final average salary for each year of service.

Funding Policy: The SERS Board has the authority to establish or amend periodic employer contributions at actuarially determined rates, expressed as a percentage of annual covered payroll. Commonwealth law determines all member contribution rates. The active plan member contribution rate is 5 percent of covered payroll for most employees in Class A; for Class AA members, the contribution rate is 6.25 percent. Higher contributions are required for certain members of the General Assembly and judges and district justices who elect higher contribution rates. Act 9 of 2001 provided that new benefits arising from Act 9 were to be funded over a ten-year period, with level dollar funding, beginning July 1, 2002. Act 9 also provided that all the existing actuarial assets and liabilities would be combined and refinanced over a ten-year period using level dollar funding and future actuarial gains and losses were to be amortized using ten-year level dollar funding.

During each of the three years ended December 31, the annual required employer contributions (amounts in thousands) and the related percentage of that amount actually contributed are as follows (amounts in thousands):

Year ended December 31	Annual Required Contribution	Percentage Contributed
2002	$ 22,906	221.9
2001	$ 52,104	147.2
2000	$ 168,002	100.0

NOTE I - RETIREMENT AND OTHER POSTEMPLOYMENT BENEFITS (continued)

At December 31, 2002, the SERS disclosed no long-term contracts for contributions to the plan.

Summary of Significant Accounting Policies: The SERS financial statements are prepared on the accrual basis of accounting, whereby expenses are recorded when the liability is incurred, revenues are recorded in the accounting period in which they are earned and become measurable, and investment purchases and sales are recorded as of the related trade date. Member and employer contributions are recognized in the period in which employee salaries are reported. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Investment Valuation: The investment in the Commonwealth Treasury short-term investment pool is reported at cost plus allocated interest, which approximates fair value. Collateral received under the Commonwealth Treasury securities lending program is reported at cost plus accrued interest. United States government obligations, corporate and foreign bonds and notes, and common and preferred stocks are generally valued based on published market prices and quotations from national security exchanges and securities pricing services. Securities that are not traded on a national security exchange are valued by the asset manager or third parties based on similar sales. The System has entered into certain swap contracts with a notional amount equivalent to the System's original investment in the absolute return fund-of-funds limited partnerships to provide S&P 500 returns. The combination of the swaps and the underlying investments result in a return consistent with an actively managed equity portfolio. Accordingly, those investments have been classified as common stocks on the statement of net assets. Real estate is primarily valued based on appraisals performed by independent appraisers or, for properties not appraised, at the present value of the projected future net income stream. Alternative investments, which include interests in limited partnerships invested in venture capital, leveraged buyouts, private equities, and other investments are valued based on amounts established by valuation committees, which are subject to an annual independent audit. The values for real estate and alternative investments are reported on a one-quarter lag (September 30), adjusted for cash flows through December 31. Foreign exchange and futures contracts are marked-to-market daily with changes in fair value recognized as part of investments and investment income. The net values of swaps are determined no less than monthly based on the return of the underlying indices, which is generally exchanged for a short-term rate plus a spread.

The Collective Trust Funds (CTF) consist primarily of domestic and international institutional mutual and index funds. The funds do not pay interest or dividends to shareholders, and reinvest all income earned on securities held by the fund. The fair value of CTF is based on the reported share value of the respective fund.

Investment Concentration: At December 31, 2002, approximately $471 million, or 19.4 percent, of the total SERS real estate portfolio was located in the Commonwealth of Pennsylvania. Also, investments in corporate and foreign bonds and notes include approximately $767 million of high-yield bonds at December 31, 2002.

Public School Employees' Retirement System

Plan Description: The PSERS is a cost-sharing multiple-employer defined benefit retirement system established to provide pension and other benefits for public school employee members. At June 30, 2003 there were 726 participating employers, generally school districts. The PSERS provides retirement, death, disability and health care benefits. In most cases, retirement benefits vest after 5 years of credited service. Members are eligible for full monthly retirement benefits upon reaching (a) age 62 with at least one year of service, (b) age 60 with 30 or more years of service, or (c) 35 or more years of service regardless of age.

Act 9 of 2001 provided for members to elect Membership Class T-D and convert from Membership Class T-C effective July 1, 2001. Benefits for full retirement are generally equal to 2 percent (Membership Class T-C) or 2.5 percent (Membership Class T-D) of the member's final average salary multiplied by years of credited service. The Commonwealth has the authority to establish or amend benefit provisions.

Funding Policy: The Public School Employees' Retirement Code provides that the PSERS Board has the authority to establish or amend periodic employer contributions at actuarially determined rates, expressed as a percentage of annual covered payroll. The active plan member contribution rates for employees in Membership Class T-C and T-D hired before July 22, 1983 are 5.25 and 6.50 percent of covered payroll, respectively; for employees in Membership Class T-C and T-D hired after July 21, 1983, the rate are 6.25 and 7.50 percent, respectively. The increased member contribution rates for Class T-D became effective January 1, 2002. Commonwealth law determines member contribution rates.

NOTE I - RETIREMENT AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Since 1995, employers defined as school entities (school districts, area vocational-technical schools, and intermediate units) are required to pay the entire employer contribution. The Commonwealth partially reimburses school entities in accordance with Act 29 of 1994. The amount of reimbursement is at least one half of the total employer contribution. For employers that are not school entities, the employer contribution is paid equally by the employer and the Commonwealth to the PSERS; no Commonwealth reimbursement occurs.

During each of the three fiscal years ended June 30, the annual required employer contributions (in thousands) and the related percentage of that amount actually contributed are as follows:

Fiscal year Ended June 30	Annual Required Contribution	Percentage Contributed
2003	$ 20,831	100
2002	$ 539	100
2001	$ 158,193	100

At June 30, 2003, the PSERS disclosed that $99,700 of $190,922 (in thousands) of member receivables for purchases of service credit are due subsequent to June 30, 2004.

Summary of Significant Accounting Policies: The PSERS financial statements are prepared on the accrual basis of accounting, whereby expenses are recorded when the liability is incurred, revenues are recorded in the accounting period in which they are earned and become measurable, and investment purchases and sales are recorded as of the related trade date. Member and employer contributions are recognized in the period in which employees' salaries are reported. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Investment Valuation: Investments are reported at fair value, which is the amount that the PSERS can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. Short-term securities are reported at cost, which approximates fair value, unless they have a published market price or quotation from national security exchanges and securities pricing services, in which case they are reported at the published market price. Fixed income securities and common and preferred stocks are generally reported based on published market prices and quotations from national security exchanges and securities pricing services. Securities that are not traded on a national security exchange are valued by the respective fund manager or other third parties based on similar sales. Real estate is primarily valued based on appraisals performed by independent appraisers or, for properties not appraised, at cost or the present value of projected future net income. Private equity, private debt, venture capital and equity real estate are primarily valued based on amounts established by valuation committees. Futures contracts, foreign exchange contracts, and options are marked-to-market daily; changes in market value are recognized as part of net appreciation/depreciation in the fair value of investments. Initial margin requirements for such financial instruments are provided by investment securities pledged as collateral or by cash.

Investment Concentration: At June 30, 2003, there were no investments in any one organization that represented 5 percent or more of plan net assets.

Other Postemployment Benefits

The Commonwealth funds certain health care benefits for retired primary government and certain component unit employees (that meet specified length-of-service and age requirements) and their eligible dependents. These benefits are provided as a result of negotiated union contracts and through administrative policy. The Commonwealth recognizes the cost of providing these benefits as paid, which totaled $295 million for the fiscal year ended June 30, 2003. Approximately 90,000 individuals were covered by these benefits during the fiscal year.

The Commonwealth provides several other postemployment benefits, including disability life insurance and certain benefits to beneficiaries of state police officers killed in the line of duty. The amount expended for these benefits was not material during the fiscal year ended June 30, 2003.

NOTE J - NOTES AND DEMAND REVENUE BONDS PAYABLE

Primary Government

During the fiscal year ended June 30, 2003, the Commonwealth did not issue any tax or bond anticipation notes or any other short-term debt and no short-term debt was repaid. At June 30, 2003 and 2002, no short-term debt was outstanding.

Discretely Presented Component Units

The Pennsylvania Higher Education Assistance Agency (PHEAA), a discretely presented component unit, has reported $3,471 million of demand revenue bonds outstanding and $759.3 million of notes payable, consisting of student loan financing of $550.6 million, capital financing of $76.3 million, term financings of $86.4 million and other lines of credit of $46 million at June 30, 2003 as follows (amounts in thousands):

	Balance June 30, 2002	Additions	Reductions	Balance June 30, 2003
Student loan demand revenue bonds due 2018-2042, at weighted average interest rates of 1.14 and 1.58 percent at June 30, 2003and 2002, respectively	$ 2,061,000	$ 1,410,000	$ -	$ 3,471,000
Notes Payable:				
Student loan financing, due in 2002-2007, at weighted average interest rates of 1.65 and 2.33 percent at June 30, 2003 and 2002, respectively	769,959	330,135	(549,475)	550,619
Capital financings, due 2003-2010 at weighted average interest rates of 6.23 and 5.36 percent at June 30, 2003 and 2002, respectively	79,283	-	(2,691)	76,592
Term financings, due 2005-2030 at weighted average interest rates of 5.22 and 5.26 percent at June30, 2003 and 2002, respectively	91,826	-	(4,804)	87,022
Other lines of credit, due on demand at weighted average interest rates of 3.47 and 3.91 percent at June 30, 2003 2002, respectively	30,000	16,000	-	46,000
	971,068	346,135	(556,970)	760,233
Less: unamortized discount	(1,037)	0	81	(956)
Total Notes Payable	$ 970,031	$ 346,135	$(556,889)	$ 759,277

The component unit Statement of Net Assets reports current notes payable of $210,708 that relate to PHEAA notes payable. The noncurrent notes payable amount to $551,718; this amount includes noncurrent PHEAA notes of $548,569 and noncurrent Philadelphia Regional Port Authority notes of $3,149 (amounts in thousands) at June 30, 2003.

NOTE J - NOTES AND DEMAND REVENUE BONDS PAYABLE (continued)

The note and bond indentures, among other things, require PHEAA to comply with various covenants including minimum parity levels as defined, student loan and investment yields, and program expenses. The demand bonds payable are subject to purchase, at par plus accrued interest, by PHEAA on demand of the bondholders upon seven days prior irrevocable written notice. Under the irrevocable letters of credit issued by the *Student Loan Marketing Association*, the trustee is entitled to draw an amount sufficient to pay the purchase price of the bonds delivered to it. The letters of credit are valid from 2003 through 2010. The PHEAA is required to pay annual commitment fees ranging from 15 to 33 basis points on the stated amount of the letter of credit coverage. At June 30, 2003 total letter of credit coverage was $1.5 billion.

All student loan financing notes payable, demand student loan revenue bonds payable and student loan revenue bonds payable are collateralized by student loans and investments. At June 30, 2003, $4.2 billion of debt is collateralized by $4.4 billion of student loan principal and related interest receivable, and $384 million of investments and related interest receivable. Capital financings are collateralized with capital assets. Amounts due under other lines of credit are generally unsecured. At June 30, 2003 the PHEAA had $211 million of available credit under student loan financing arrangements and $9 million available under other lines of credit.

Debt service requirements subsequent to June 30, 2003, based upon stated maturities of notes payable, bonds payable and other financings and obligations are as follows (amounts in thousands):

	Student Loan Bonds And Financings		Capital and Other Financings and Obligations Under Capital Lease	
Year of Maturity	Principal	Interest	Principal	Interest
2004	$ 135,709	$ 47,107	$ 55,083	$ 8,615
2005	414,910	39,454	9,467	8,036
2006	-	39,454	5,697	7,576
2007	-	39,454	3,752	7,290
2008	-	39,454	3,235	7,115
2009-13	-	197,270	77,010	24,398
2014-18	100,000	196,774	8,380	13,116
2019-23	446,000	175,625	14,660	9,955
2024-28	475,000	159,392	18,710	5,795
2029-33	400,000	132,754	13,620	1,015
2034-38	300,000	121,952	-	-
2039-43	1,750,000	74,075	-	-
Total	$ 4,021,619	$1,262,765	$ 209,614	$ 92,911

The PHEAA has $4.0 billion of student loan bonds and financings that are variable-rate debt, of which $1.1 billion resets based upon auctions every seven days, $1.9 billion resets based upon auctions every 28 days, $450 million resets based upon auctions every 35 days, $414 million is indexed to 91-day Treasury bills, and the remaining $135.7 million is indexed to the 3-month LIBOR.

Notes and bonds payable, as well as all other debt, are limited obligations of the PHEAA. The PHEAA has no taxing power, and the Commonwealth is not obligated to pay the principal, redemption price, if any, or interest on any of the PHEAA's debt.

NOTE K – GENERAL LONG TERM OBLIGATIONS- GOVERNMENTAL ACTIVITIES AND COMPONENT UNITS

Long-term obligations of the Commonwealth's primary government at June 30, 2003 and changes for the fiscal year ended June 30, 2003 are as follows (amounts in thousands):

GENERAL LONG-TERM OBLIGATIONS	Issue Dates	Interest Rates	Maturity Dates Through	Bonds Authorized But Unissued	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003
General Obligation Bonds Payable From Tax Revenues:								
Capital Facilities	1974-03	3.12-6.60%	2023	$ 33,037,409	$ 4,170,980	$ 1,216,000	$ 775,455	$ 4,611,525
Disaster Relief	2000-01	4.60- 5.56%	2021	105,908	29,755	-	8,130	21,625
Land and Water Development	1992-94	5.04- 6.44%	2012	300	11,670	-	9,410	2,260
Nursing Home Loan Development	-	-	-	31,000	550	-	550	-
Volunteer Companies Loan	1992-98	4.84-6.02%	2018	-	18,005	-	8,995	9,010
Vietnam Conflict Veterans Compensation	1974	5.36%	2003	3,000	935	-	455	480
Water Facilities Loan	1992-97	5.00- 6.44%	2017	11,500	79,835	-	49,110	30,725
Pennsylvania Economic Revitalization	1992-95	5.04- 6.44%	2015	14,000	10,445	-	4,380	6,065
Pennsylvania Infrastructure Investment Authority	1992-01	4.62- 6.44%	2021	267,000	185,850	-	104,595	81,255
Agricultural Conservation Easement Purchase	1992-98	4.47- 6.60%	2018	-	44,650	-	21,245	23,405
Local Criminal Justice	1992-01	4.36- 6.60%	2021	8,000	102,405	-	77,680	24,725
Keystone Recreation, Park and Conservation	1994-98	4.84- 6.60%	2018	-	34,645	-	14,015	20,630
Refunding Bonds	1992-03	3.23- 5.73%	2018	-	1,382,213	752,739	165,816	1,969,136
Total principal				33,478,117	6,071,938	1,968,739	1,239,836	6,800,841
Unamortized premium on bonds issued				-	66,500	194,907	7,146	254,261
Unamortized deferred net refunded loss				-	-	(27,216)	(2,733)	(24,483)
Total general obligation bonds payable				33,478,117	6,138,438	2,136,430	1,244,249	7,030,619
Other General Long-Term Obligations Payable From Tax and Other Revenues:								
Installment Purchase Obligations	-	-	-	-	14,344	805	4,700	10,449
Capital Lease Obligations	-	-	-	-	52,073	3,851	4,242	51,682
Obligations Under Master Lease—Prison Facilities	-	-	-	-	563,020	-	563,020	-
Self-Insurance—Note M	-	-	-	-	707,277	157,926	104,713	760,490
Compensated Absences	-	-	-	-	735,497	344,493	339,735	740,255
Catastrophic Motor Vehicle Losses	-	-	-	-	121,987	12,811	11,583	123,215
Other	-	-	-	-	426,271	146,046	126,965	445,352
				-	2,620,469	665,932	1,154,958	2,131,443
TOTAL GENERAL LONG-TERM OBLIGATIONS				$ 33,478,117	$ 8,758,907	$ 2,802,362	$ 2,399,207	$ 9,162,062

Proprietary funds/business-type activities have reported $18,266 (in thousands) of the self-insurance liabilities above.

Revenue bond obligations of discretely presented component units at June 30, 2003 (May 31, 2003 for the Pennsylvania Turnpike Commission) and changes for the fiscal year then ended are as follows (amounts in thousands):

Pennsylvania Higher Education Assistance Agency	1988-02	3.30%	2025	$ 537,925	$ -	$ 150,000	$ 387,925
Philadelphia Regional Port Authority	1993	2.75-6.20%	2020	52,575	-	1,970	50,605
State System of Higher Education	1992-03	3.87-5.74%	2024	15,970	53,485	130	69,325
Pennsylvania Housing Finance Agency	1982-03	1.15-10.88%	2033	2,974,119	495,545	394,353	3,075,311
Pennsylvania Industrial Development Authority	1994-02	4.00-7.00%	2021	556,625	-	24,815	531,810
Pennsylvania Turnpike Commission	1992-02	2.50-6.00%	2041	2,151,235	449,145	469,830	2,130,550
Pennsylvania Infrastructure Investment Authority	1990-98	4.10-6.45%	2011	147,315	-	14,685	132,630
				6,435,764	998,175	1,055,783	6,378,156
Less: Bond discounts/(premiums)	-	-	-	3,107	2,967	6,446	(372)
Deferred costs of refunding	-	-	-	24,071	10,073	2,563	31,581
Deferred refunding loss	-	-	-	2,129	-	561	1,568
TOTAL REVENUE BONDS PAYABLE				$ 6,406,457	$ 985,135	$ 1,046,213	$6,345,379

NOTE K – GENERAL LONG TERM OBLIGATIONS – GOVERNMENTAL ACTIVITIES AND COMPONENT UNITS (continued)

Primary Government

The Commonwealth has pledged its full faith and credit for the payment of principal and interest on its general obligation bonds. Typically only the **General Fund** and the **Motor License Fund** transfer amounts to Debt Service funds for general obligation bond principal and interest payments. During the fiscal year ended June 30, 2003, respectively, these two Funds transferred $563,820 and $61,524, along with $90,000 from the Capital Facilities Fund, to the Capital Debt fund, which reported $695,163 (over 91 percent) of total Debt Service funds principal and interest expenditures of $758,456 (amounts in thousands). Except for Catastrophic Motor Vehicle Losses, which are funded by motorist violation fines, general long-term obligations other than general obligation bonds are funded by specific Funds where capital assets are procured using long-term vendor or other financing, where employees earn compensated absences or where self-insurance claims originate.

The total "Additions" of $2,136,430 for General Obligations Bonds Payable from Tax Revenues at June 30, 2003 consists of total bond and refunding bond proceeds of $1,324,167 and $837,991, respectively, for Governmental Funds (as reported in the Statement of Revenues, Expenditures and Changes in Fund Balances), plus net principal accretion on maturing debt for capital appreciation bonds of $1,488 less deferred net refunded loss of $27,216 during the fiscal year ended June 30, 2003. Total Governmental Fund bond/refunding bond proceeds of $2,162,158 equal "Additions" of $1,968,739 plus premium on bonds issued of $194,907, less net principal accretion on maturing debt for capital appreciation bonds of $1,488. During the fiscal year ended June 30, 2003 $7,146 of bond premium was amortized and credited to bond interest expense in the Statement of Activities; unamortized premium in the Statement of Net Assets at June 30, 2003 is $254,261. Also, during the fiscal year ended June 30, 2003 $2,733 of deferred net refunded loss was amortized and charged to bond interest expense in the Statement of Activities; unamortized deferred net refunded loss in the Statement of Net Assets at June 30, 2003 is $24,483 (amounts in thousands).

The Commonwealth uses fiscal agents to process payments for the servicing of certain bond issues. Additional cash with fiscal agents is held by the Federal government for unemployment compensation claims.

The balance outstanding at June 30, 2003 for general obligation refunding bonds includes $28.2 million of accreted value for capital appreciation bonds. No principal or interest is payable on the capital appreciation bonds until maturity.

Included in "Other" for Other General Long-Term Obligations payable from workmen's compensation assessments and **General Fund** tax revenues are the following at June 30, 2003 (amounts in thousands):

Workmen's Compensation Security Trust Claims	$ 380,567
Public Utility Realty Tax Act (PURTA)	28,404
Litigation—Note N	36,298
Arbitrage Rebate Tax	83
	$ 445,352

The Workmen's Compensation Security Trust Fund provides for payment of valid claims under the Workmen's Compensation Law to individuals whose employers are insured by insolvent insurance carriers. The PURTA provides for a tax on utility realty property whereby amounts received during the fiscal year are used as a General Fund revenue source. The Act also provides for payment of a majority of the PURTA revenues as a distribution to local taxing authorities during the following fiscal year (normally in October). Such payments are appropriated for expenditure in the following fiscal year and are, therefore, not expendable during the fiscal year the related revenue is received. The other amounts included in General Long-Term Obligations at June 30, 2003 relating to Workmen's Compensation Claims, Litigation and Arbitrage Rebate Tax are not payable with currently expendable available financial resources.

NOTE K – GENERAL LONG TERM OBLIGATIONS – GOVERNMENTAL ACTIVITIES AND COMPONENT UNITS (continued)

In 1991, the Commonwealth entered into lease arrangements with five local government authorities for the rental of five new prisons. Each authority issued bonds to finance the construction of the prisons. Each lease provided for the Commonwealth to pay periodic rentals equal to debt service payments on each authority's debt obligation. On July 1, 1993 a finance corporation issued Certificates of Participation, Series 1993A to refund the authority debt obligations, to consolidate the financing of the prisons and to provide additional construction funding. As a result of the consolidated financing, the Commonwealth made lease payments equal to the finance corporation's debt service payments. Both the original and the new leases provided that the Commonwealth's obligation to make lease payments was subject to Commonwealth appropriations made to provide for these obligations. In the fiscal year ended June 30, 1994 the Commonwealth began using the new prison facilities. The finance corporation held nominal title to the facilities as security for the Commonwealth lease payments. During the fiscal year ended June 30, 2003 the Commonwealth redeemed the Certificates of Participation, Series 1993A using refunding bond proceeds. The Capital Facilities Fund, a Capital Projects Fund, reported principal and interest expenditures, respectively, of $530 million and $23.6 million during the fiscal year ended June 30, 2003 to redeem the Certificates of Participation, Series 1993A and that liability is no longer outstanding at June 30, 2003.

The Commonwealth's constitutional debt limit, which allows for the incurrence of debt to be used for capital projects without electorate approval as specifically itemized in a capital budget, was $42.5 billion as of August 31, 2003, with net debt outstanding of $6 billion.

Discretely Presented Component Units

The Pennsylvania Housing Finance Agency (PHFA), the Pennsylvania Higher Education Assistance Agency (PHEAA), the Pennsylvania Industrial Development Authority, the Pennsylvania Turnpike Commission (PTC) and the Pennsylvania Infrastructure Investment Authority, discretely presented component units, have pledged substantially all of their revenues for the redemption of revenue bonds outstanding. Revenue bonds outstanding as reported in this note disclosure for the fiscal year ended June 30, 2003 (May 31, 2003 for the PTC) include bond premiums, deferred costs of refunding, and deferred refunding losses of $372 thousand, $31.6 million, and $1.6 million, respectively.

The following table presents annual principal and interest payments for long-term debt outstanding for the primary government and discretely presented component units at June 30, 2003 (May 31, 2003 for the Pennsylvania Turnpike Commission) (amounts in thousands):

PRIMARY GOVERNMENT

	2004	2005	2006	2007	2008	2009-13	2014-18
GENERAL OBLIGATION BONDS:							
Capital Facilities	$ 472,568	$ 492,596	$ 477,146	$ 467,881	$ 448,423	$ 2,064,419	$ 1,527,701
Disaster Relief	2,735	2,656	2,577	2,494	2,412	10,784	7,177
Land and Water Development	506	264	260	260	259	1,406	-
Nursing Home Loan Development	-	-	-	-	-	-	-
Volunteer Companies Loan	1,424	928	911	899	880	4,380	3,008
Vietnam Conflict Veterans Compensation	491	-	-	-	-	-	-
Water Facilities Loan	6,438	3,727	3,597	3,565	3,537	16,096	3,155
Pennsylvania Economic Revitalization	1,667	667	663	654	652	3,167	323
Pennsylvania Infrastructure Investment Authority	15,756	9,581	9,253	9,074	8,886	37,813	15,522
Agricultural Conservation Easement Purchase	4,459	2,709	2,668	2,617	2,156	10,081	5,577
Local Criminal Justice	7,562	4,313	3,804	3,771	1,287	5,853	3,267
Keystone Recreation, Park and Conservation	3,275	3,240	3,056	3,014	2,512	7,734	3,994
Refunding Bonds	261,714	288,837	281,751	258,851	253,294	1,001,980	184,885
Total Principal and Interest	778,595	809,518	785,686	753,080	724,298	3,163,713	1,754,609
Less: Interest Payments	320,578	317,340	293,359	267,657	243,718	847,328	344,822
	458,017	492,178	492,327	485,423	480,580	2,316,385	1,409,787
Other General Long-Term Obligations	109,808	86,600	90,911	90,869	92,846	537,683	548,324
TOTAL GENERAL LONG-TERM OBLIGATIONS	$ 567,825	$ 578,778	$ 583,238	$ 576,292	$ 573,426	$ 2,854,068	$ 1,958,111

The portion of Total General Long-Term Obligations due by June 30, 2004 amounts to $567,825 (in thousands).

NOTE K – GENERAL LONG TERM OBLIGATIONS – GOVERNMENTAL ACTIVITIES AND COMPONENT UNITS (continued)

	2019-23	2024-28	2029-33	2034-38	2039-43	Total
GENERAL OBLIGATION BONDS:						
Capital Facilities	$ 726,000	$ 13,937	$ -	$ -	$ -	$ 6,690,671
Disaster Relief	397	-	-	-	-	31,232
Land and Water Development	-	-	-	-	-	2,955
Nursing Home Loan Development	-	-	-	-	-	-
Volunteer Companies Loan	-	-	-	-	-	12,430
Vietnam Conflict Veterans Compensation	-	-	-	-	-	491
Water Facilities Loan	-	-	-	-	-	40,115
Pennsylvania Economic Revitalization	-	-	-	-	-	7,793
Pennsylvania Infrastructure Investment Authority	1,559	-	-	-	-	107,444
Agricultural Conservation Easement Purchase	974	-	-	-	-	31,241
Local Criminal Justice	701	-	-	-	-	30,558
Keystone Recreation, Park and Conservation	-	-	-	-	-	26,825
Refunding Bonds	-	-	-	-	-	2,531,312
Total Principal and Interest	729,631	13,937	-	-	-	9,513,067
Less: Interest Payments	77,117	307	-	-	-	2,712,226
	652,514	13,630	-	-	-	6,800,841
Other General Long-Term Obligations	493,585	80,817	-	-	-	2,131,443
TOTAL GENERAL LONG-TERM OBLIGATIONS	$ 1,146,099	$ 94,447	$ -	$ -	$ -	$ 8,932,284

DISCRETELY PRESENTED COMPONENT UNITS

	2004	2005	2006	2007	2008	2009-13	2014-18
Pennsylvania Higher Education Assistance Agency	$ 83,272	$ 8,272	$ 8,272	$ 8,272	$ 8,272	$ 41,361	$ 178,020
Philadelphia Regional Port Authority	5,115	5,107	5,059	4,547	4,545	22,616	22,495
State System of Higher Education	2,864	3,296	3,387	3,543	3,597	20,240	21,899
Pennsylvania Housing Finance Agency	226,932	231,111	230,949	227,903	229,728	1,197,843	1,121,955
Pennsylvania Industrial Development Authority	51,956	53,491	54,239	55,697	56,889	253,908	188,546
Pennsylvania Turnpike Commission	122,761	123,161	125,702	126,177	126,677	638,677	652,633
Pennsylvania Infrastructure Investment Authority	21,768	21,388	20,493	19,446	18,076	41,815	21,265
Total Principal and Interest	514,668	445,826	448,101	445,585	447,774	2,216,460	2,206,813
Less: Interest Payments	279,338	273,471	265,992	257,773	249,188	1,100,201	815,667
TOTAL REVENUE BONDS	$ 235,330	$ 172,355	$ 182,109	$ 187,812	$ 198,586	$ 1,116,259	$ 1,391,146

	2019-23	2024-28	2029-33	2034-38	2039-43	Total
Pennsylvania Higher Education Assistance Agency	$ 19,975	$ 177,662	$ -	$ -	$ -	$ 533,378
Philadelphia Regional Port Authority	13,369	-	-	-	-	82,853
State System of Higher Education	22,158	22,488	23,994	16,408	-	143,874
Pennsylvania Housing Finance Agency	902,082	654,970	276,538	4,114	-	5,304,125
Pennsylvania Industrial Development Authority	83,864	-	-	-	-	798,590
Pennsylvania Turnpike Commission	395,267	597,336	1,649,605	53,317	188,611	4,799,914
Pennsylvania Infrastructure Investment Authority	-	-	-	-	-	164,251
Total Principal and Interest	1,436,715	1,452,456	1,950,137	73,839	188,611	11,826,985
Less: Interest Payments	491,508	259,214	1,411,482	37,179	7,816	5,448,829
TOTAL REVENUE BONDS	$ 945,207	$ 1,193,242	$ 538,655	$ 36,660	$ 180,795	$ 6,378,156

NOTE K – GENERAL LONG TERM OBLIGATIONS – GOVERNMENTAL ACTIVITIES AND COMPONENT UNITS (continued)

The Commonwealth has entered into certain agreements to lease various facilities and equipment. Such agreements are in-substance purchases (capital leases) and are reported as Capital Lease Obligations. In addition, the Commonwealth also makes purchases using installment purchase arrangements. The following is a schedule by fiscal year of future minimum payments under capital leases and installment purchase obligations, together with the present value of the net minimum lease payments as of June 30, 2003 (amounts in thousands):

	Primary Government		Discretely Presented Component Unit
	Capital Lease Obligations	Installment Purchase Obligations	State System of Higher Education
Fiscal year ending June 30			
2004	$ 9,513	$ 4,446	$ 43,638
2005	8,205	2,866	44,767
2006	7,203	1,419	44,276
2007	6,543	844	43,185
2008	6,282	536	42,579
2009-13	31,416	2,509	214,512
2014-18	18,535	747	189,298
2019-23	-	-	142,435
2024-28	-	-	21,270
Total minimum lease payments	87,697	13,367	785,960
Less: amount representing estimated executory cost included in minimum lease payments	10,532	-	-
Net minimum lease payments and Installment purchases	77,165	13,367	785,960
Less: amount representing interest	25,483	2,918	260,300
TOTAL CAPITAL LEASE AND INSTALLMENT PURCHASE OBLIGATIONS	$ 51,682	$ 10,449	$ 525,660

At June 30, 2003 general capital assets included $95.8 million of buildings and $11.3 million of equipment being procured by capital leases. A total of $30.6 million in general capital assets is being procured by vendor-financed installment purchase arrangements.

Capital lease obligations outstanding as of June 30, 2003 reported by the State System of Higher Education (SSHE), a discretely presented component unit, relate to various capital projects currently under construction for which a related public financing authority is the lessor. Revenue bonds were issued by the public financing authority to provide funding for these capital projects. SSHE capital assets include $89.7 million of construction in progress related to capital leases at June 30, 2003.

Conduit Debt

The State Public School Building Authority (SPSBA), a discretely presented component unit, finances construction and improvement projects for public schools through the issuance of tax-exempt instruments (bonds, notes or other obligations), for the purpose of making lower cost tax-exempt financing available to school districts and community colleges. The debt instruments issued by the SPSBA represent limited obligations payable solely from lease/loan payments made by the borrowing institutions and related assets held by trustees. At June 30, 2003 the SPSBA has $666.6 million of debt outstanding. Neither the SPSBA nor the Commonwealth has any obligation for this debt. Therefore, neither the financed assets nor the bonds are included in the accompanying financial statements.

The Pennsylvania Higher Educational Facilities Authority (PHEFA), a discretely presented component unit, finances projects through the issuance of tax-exempt instruments (bonds, notes and other obligations) to provide a source of tax-exempt financing for colleges and universities. The debt instruments issued by the PHEFA represent limited obligations payable solely from payments made by the related borrowing institutions and related assets held by the trustees. At June 30, 2003 the PHEFA has $4.3 billion of debt outstanding. Neither the PHEFA nor the Commonwealth has any obligation for this debt. Therefore, neither the financed assets nor the bonds are included in the accompanying financial statements.

NOTE K – GENERAL LONG TERM OBLIGATIONS – GOVERNMENTAL ACTIVITIES AND COMPONENT UNITS (continued)

The Pennsylvania Economic Development Financing Authority (PEDFA) finances projects on behalf of local industrial and commercial development authorities to promote economic growth within the Commonwealth. Revenue bonds issued by the PEDFA represent limited obligations payable solely from Authority financed project revenues. At June 30, 2003 the PEDFA has $1,614.6 million of debt outstanding. Neither PEDFA nor the Commonwealth has any obligation for this debt. Therefore, neither the financed assets nor the bonds are included in the accompanying financial statements.

The Pennsylvania Energy Development Authority (PEDA) finances projects related to energy conservation and research. Fees are assessed to recover related processing and application costs incurred. The bonds issued by the Authority represent limited obligations payable solely from payments made by the borrowing entities. The majority of the bonds are secured by the property financed. Upon repayment of a bond, ownership of acquired property transfers from the trustees to the entity served by the bond issuance. The PEDA has $85.3 million in revenue bonds outstanding at June 30, 2003. The Commonwealth has no obligation for this debt. Accordingly, neither the financed assets nor the bonds are included in the accompanying financial statements.

NOTE L - REFUNDED DEBT

Primary Government

During the fiscal year ended June 30, 2003 the Commonwealth issued $641.2 million and $110 million in general obligation bonds, Second Refunding Series of 2002 and Second Series of 2003, respectively, with average interest rates of 4.99 percent and 5.0 percent to advance refund $662.8 million and $108.6 million of previously issued general obligation bonds with average interest rates of 5.31 percent and 5.375 percent. The net refunding bond proceeds of $712 million (including bond premium of $71 million) and $126 million (including bond premium of $16 million), respectively, after payment of underwriting fees, insurance, and other issuance costs, were deposited in irrevocable trusts to provide for all future debt service payments on the refunded bonds. As a result, the bonds refunded are considered to be defeased and have been removed from the Commonwealth's financial statements. The Commonwealth advance refunded its previously issued bonds to reduce debt service payable on its general obligation bonds by $57.1 million and $7.4 million, respectively, and to obtain economic gains of $47.7 million and $3.8 million.

Also, during the fiscal year ended June 30, 2003 the Commonwealth issued $490.7 million in general obligation bonds, Second Series of 2003, with an average interest rate of 5.04 percent to current refund $530 million of previously issued Certificates of Participation, Series 1993A with an average interest rate of 5.16 percent. The net refunding bond proceeds of $553.6 million (including bond premium of $64.5 million), after payment of underwriting fees, insurance, and other issuance costs, were deposited in irrevocable trusts to provide for all future debt service payments on the refunded debt. As a result, the Certificates of Participation, Series 1993A are considered to be defeased and have been removed from the Commonwealth's financial statements. The Commonwealth refunded its previously issued Certificates of Participation to reduce debt service payable by $57.4 million and to obtain an economic gain of $55.7 million.

In prior years, the Commonwealth defeased certain general obligation bonds by placing the proceeds of refunding bonds in irrevocable trusts to provide for all future debt service payments on the refunded bonds. At June 30, 2003, $692.6 million of general obligation bonds outstanding that were previously accounted for in the Commonwealth's financial statements have been defeased through advance refundings.

Discretely Presented Component Units

During the fiscal year ended June 30, 2003, the Pennsylvania Higher Education Assistance Agency (PHEAA) issued $225 million of student loan demand revenue bonds at a weighted average interest rate of 1.28 percent to current refund $225.0 million of outstanding student loan revenue bonds with a weighted-average interest rate of 6.22 percent. The current refunding bonds are fixed rate bonds with a mandatory tender on July 1, 2004. At that date, the bonds will be remarketed. The PHEAA expects to reduce interest payments over the next year by $11.0 million as a result of the refunding. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $4.0 million. This difference, reported in the accompanying statement of net assets as a deduction from student loan revenue bonds payable, is being charged to student loan financings and bonds payable interest expense ratably over the life of the student loan revenue bonds.

During the fiscal year ended June 30, 2003 the Pennsylvania Housing Finance Agency (PHFA) redeemed prior to maturity $8.5 million of Multi-Family Residential Development Bonds and $5.4 million of Multi-Family Development Bonds, Issues 1993 and 1993A, using mortgage prepayments. An extraordinary loss of $156 thousand resulted from the redemptions as unamortized bond discounts and the related costs of issuance for the bonds were expensed. Additionally, during that year, the PHFA redeemed prior to maturity $173.1 million of Multi-Family Residential Development Bonds and $27.2 million of State Workers' Insurance Fund Bond issues 1991A, 1992, 1992A, and 1994 using bond issuance proceeds. Although a deferred loss of $5.1 million resulted from the refundings, the PHFA in effect obtained an economic gain of $32.6 million and was able to reduce its aggregate debt service payments as a result of these transactions by a total of $69.5 million over the next 30 years.

Also during the fiscal year ended June 30, 2003, the PHFA redeemed prior to maturity $108.3 million of Single Family Mortgage Revenue Bonds, Series 1992-34, 1992-35, 1994-38, 1994-41, 1994-42, 1994-43, 1995-44, 1995-45, 1995-46, 1996-47, 1996-48, 1996-50, 1996-51, 1996-52, 1996-53, 1997-54, 1997-56, 1997-57, 1997-58, 1997-59, 1997-60, 1997-61, 1998-62, 1998-64, 1999-65, 1999-66, 1999-67, 1999-68, 2000-69, 2000-70, 2001-72, and 2002-73, using mortgage prepayments. Extraordinary losses of $1.1 million resulted from the redemptions as unamortized bond discount and related costs of issuance for the bonds redeemed were expensed There were no advance refundings of Single Family Bonds from the issuance of new debt during 2003.

NOTE L - REFUNDED DEBT (continued)

At June 30, 2003, $7.1 million of bonds outstanding that were previously accounted for in the financial statements of the PHFA have been defeased through refundings.

During the fiscal year ended May 31, 2003 the Pennsylvania Turnpike Commission (PTC) issued $288.3 million in Series A Revenue Bonds and $160.9 million in Series B Revenue Bonds. The proceeds of the bonds were used to advance refund the PTC's Series O and P Revenue Bonds. As a result of the Series A and B advance refundings, the PTC incurred economic losses of $10.4 million and $5.8 million, respectively, which will be amortized over the life of the new bonds. The advance refundings resulted in a decrease in debt service requirements at May 31, 2003 of $11.8 million.

At May 31, 2003, the PTC has no bonds outstanding that were previously accounted for in their financial statements that have been defeased through refundings.

At June 30, 2003, $11.3 million of bonds outstanding that were previously accounted for in the financial statements of the Pennsylvania Infrastructure Investment Authority have been defeased through refundings.

At June 30, 2003, $2 million of bonds outstanding that were previously accounted for in the financial statements of the Pennsylvania Industrial Development Authority have been defeased through refundings.

At June 30, 2003, $89.1 million of bonds outstanding that were previously accounted for in the financial statements of the State System of Higher Education have been defeased through refundings.

NOTE M - SELF-INSURANCE

The Commonwealth is self-insured for statutory workers' compensation, which includes indemnity and medical benefits (employee disability), for its employees injured on the job. The Commonwealth is also self-insured for annuitant medical/hospital claims and for tort liability claims. Major tort risks include automobile, employee and general torts. For property losses, the Commonwealth has $1 million retention with excess commercial insurance coverage up to $134 million per occurrence. The Commonwealth is also self-insured for claims against the Department of Transportation (transportation claims). The Commonwealth has established various administrative policies that are intended to avoid or limit the aforementioned risks.

There were no reductions in commercial insurance coverage during the fiscal year ended June 30, 2003. No settlements exceeded commercial insurance coverage during any of the past three fiscal years.

The accrued liabilities for employee disability and annuitant medical/hospital claims are determined by an actuary in accordance with accepted actuarial principles. The accrued liability for employee disability was calculated including the effects of changes in statutory benefits from Act 44 of 1993 and Act 57 of 1997. Accrued liabilities for tort and transportation claims are established based on reserves computed from the Commonwealth's claim experience; such claims are not discounted. These liabilities include liabilities for allocated claim adjustment expenditures/expenses and include salvage and subrogation. Salvage and subrogation were not material for the fiscal year ended June 30, 2003. No accrued liability has been reported for property losses.

At June 30, 2003, the accrued liabilities that will be paid with current expendable available financial resources are reported in the **General Fund** ($111,592), the **Motor License Fund** ($18,500), a Special Revenue Fund, and the State Workmen's Insurance Fund ($228) and the State Stores Fund ($3,060), Enterprise Funds. The **General Fund** is reporting the annuitant medical/hospitalization liability as Accounts Payable at June 30, 2003. Those liabilities that will not be paid with current expendable available financial resources at June 30, 2003 are reported as governmental long-term obligations (GLTO) and will be funded by the **General Fund** ($379,172), the **Motor License Fund** ($271,407), a Special Revenue Fund, and as a non-current liability of the State Workmen's Insurance Fund ($1,037) and State Stores Fund ($13,941), Enterprise Funds. All accrued self-insurance liabilities at June 30, 2003 are summarized as follows (amounts in thousands):

	General Fund	Motor License Fund	State Workmen's Insurance Fund	State Stores Fund	GLTO	Total
Employee disability	$ 65,120	$ -	$228	$ 3,060	$ 308,686	$ 377,094
Annuitant medical/hospital	38,447	-	-	-	-	38,447
Automobile tort	3,375	-	-	-	17,733	21,108
Employee tort	3,050	-	-	-	25,430	28,480
General tort	1,600	-	-	-	42,301	43,901
Transportation	-	18,500	-	-	271,407	289,907
Totals	$111,592	$18,500	$228	$ 3,060	$ 665,557	$ 798,937

The following summary provides aggregated information on June 30, 2002 reported self-insurance liabilities; incurred claims and payments during the fiscal year ended June 30, 2003 and reported self-insurance liabilities at June 30, 2003 (amounts in thousands):

	June 30, 2002 Liability	Incurred Claims		Payments		June 30, 2003 Liability
		Current	Prior	Current	Prior	
Employee disability	$ 379,248	$ 60,021	$ 6,247	$ 8,843	$ 59,579	$ 377,094
Annuitant medical/hospital	36,499	341,265	-	302,818	36,499	38,447
Automobile tort	19,676	10,484	(5,959)	1,143	1,950	21,108
Employee tort	27,631	1,085	3,090	30	3,296	28,480
General tort	41,324	9,563	(6,314)	45	627	43,901
Transportation	331,358	60,523	(90,587)	429	10,958	289,907
Totals	$ 835,736	$ 482,941	$ (93,523)	$ 313,308	$112,909	$ 798,937

NOTE M - SELF-INSURANCE (continued)

The following summary provides aggregated information on June 30, 2001 self-insurance liabilities; incurred claims and payments during the fiscal year ended June 30, 2002 and reported self-insurance liabilities at June 30, 2002 (amounts in thousands):

	June 30, 2001	Incurred Claims		Payments		June 30, 2002
	Liability	Current	Prior	Current	Prior	Liability
Employee disability	$ 378,934	$ 44,363	$ 9,966	$ 5,965	$ 48,050	$ 379,248
Annuitant medical/hospital	36,181	314,832	-	278,333	36,181	36,499
Automobile tort	17,786	6,850	(2,054)	1,046	1,860	19,676
Employee tort	26,086	1,269	1,384	82	1,026	27,631
General tort	32,729	7,125	2,557	20	1,067	41,324
Transportation	272,815	67,050	3,642	463	11,686	331,358
Totals	$ 764,531	$ 441,489	$ 15,495	$ 285,909	$ 99,870	$ 835,736

NOTE N – COMMITMENTS AND CONTINGENCIES

Construction and Other Commitments: At June 30, 2003, the Department of Transportation and at May 31, 2003, the Pennsylvania Turnpike Commission, a discretely presented component unit, have contractual commitments of approximately $3,248.5 million and $352 million, respectively, for various highway construction and mass transit projects. Financing for these future expenditures will be primarily from approved federal grants and general obligation bond proceeds. In addition, the Commonwealth has a variety of contractual and other commitments for future subsidies and purchases of goods and services for approximately $5.5 billion at June 30, 2003. Actual expenditures are contingent upon approved spending authority and/or availability of financial resources.

Loan Commitments: At June 30, 2003, the following discretely presented component units had approved loans that had not been disbursed (amounts in millions):

Pennsylvania Housing Finance Agency	$ 38
Pennsylvania Industrial Development Authority	140
Pennsylvania Infrastructure Investment Authority	578

Operating Lease Commitments: The Commonwealth and its discretely presented component units have commitments to lease certain buildings and equipment. Future minimum rental commitments for noncancelable operating leases as of June 30, 2003 were as follows (amounts in thousands):

Fiscal year ending June 30:	Primary Government	Discretely Presented Component Units
2004	$ 224,726	$9,427
2005	156,100	6,124
2006	126,507	2,731
2007	86,069	1,808
2008	63,702	256
2009-2013	144,086	418
Total Minimum Lease Payments	$ 801,190	$20,764

Rental expenditures/expenses for all operating leases for the fiscal year ended June 30, 2003 amounted to $368.7 million ($357.9 million for primary government and $10.8 million for discretely presented component units).

Child Support Payments: At June 30, 2003, the Commonwealth is contingently liable for approximately $42 million in payments received by a contractor to be used for child support payments.

Litigation: The Commonwealth is a defendant in numerous legal proceedings pertaining to matters normally incidental to routine operations. Such litigation includes, but is not limited to, claims asserted against the Commonwealth arising from alleged torts, alleged breaches of contracts, condemnation proceedings and other alleged violations of Commonwealth and Federal laws. The Commonwealth has recorded accrued liabilities at June 30, 2003 with respect to torts as described in Note M, and other General Long-Term Obligations with respect to other matters of litigation in the amount of $36,298 thousand for which the likelihood of an unfavorable outcome is probable.

Additionally, the Commonwealth is currently involved in certain legal proceedings relative to a case concerning the distribution of certain state funding for public education in an approximate amount ranging from $200 million to $1 billion. Other cases that the Commonwealth is vigorously contesting could range from approximately $70 million to $449 million, $.2 to $372 million, $7.5 to $27.2 million, zero to $.7 million, zero to $15 million, and $.1 million to $1.1 billion of additional liabilities for the **General Fund**, Special Revenue Funds, Capital Projects Funds, Enterprise Funds, Agency Funds and the Pension Trust Funds, respectively.

Based on the current status of all these legal proceedings, for which accruals have not been made, it is the opinion of the Commonwealth's management and counsel that they will not have a material effect on the Commonwealth's financial position.

The range of potential liability for governmental and business-type activities, respectively, is between $294 million and $1.9 billion and zero to $.7 million at June 30, 2003. The range for the **Motor License Fund** and the **Unemployment Compensation Fund**, respectively, is between $200 thousand and $252 million and zero and $.7 million at June 30, 2003.

NOTE N – COMMITMENTS AND CONTINGENCIES (continued)

Federal Grants: The Commonwealth receives significant financial assistance from the Federal government in the form of grants and entitlements, including several non-cash programs (which are not included in the general purpose financial statements). Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable Federal regulations, including the expenditure of resources for eligible purposes. Substantially all grants are subject to either the Federal Single Audit Act or to financial and compliance audits by the grantor agencies of the Federal government or their designees. Disallowances and sanctions as a result of these audits may become liabilities of the Commonwealth. The Commonwealth is currently involved in administrative and legal proceedings, with certain Federal agencies, contesting various disallowances and sanctions related to Federal Assistance Programs ranging from $40 to $139 million at June 30, 2003. The Commonwealth's management believes ultimate disallowances and sanctions, if any, will not have a material effect on the basic financial statements.

Student Loan Guarantees: The Pennsylvania Higher Education Assistance Agency (PHEAA), a discretely presented component unit, guarantees loans made by private lenders to certain resident students. Total original principal of outstanding guarantees issued by PHEAA approximated $20.5 billion at June 30, 2003. Under the Federal Family Education Loan Program, as amended, the PHEAA has entered into agreements with the U.S. Department of Education for reinsurance of death, disability, bankruptcy, default, school closure and borrower ineligibility claims paid to lenders. Pursuant to these agreements, PHEAA receives reimbursement of claims paid to lenders, provided that PHEAA is in compliance with numerous Federal requirements. Reinsurance rates vary from 75 percent to 100 percent depending upon default rates in the portfolio guaranteed by PHEAA and upon the time period when specific loans were guaranteed by PHEAA. During the fiscal year ended June 30, 2003, PHEAA's default rate was in a range that permitted the maximum reinsurance reimbursement from the U.S. Department of Education.

Lottery Prizes: The **State Lottery Fund**, an Enterprise Fund, awards a variety of prizes, including immediate, lump-sum cash prizes and certain large prizes which provide for periodic payments to winners for specific periods of time (in some cases throughout the winners' lifetimes, and to designated beneficiaries). At June 30, 2003, the amount of future payments owed to prizewinners is $1.38 billion. To satisfy its financial obligation to these prizewinners, the Fund purchases annuity contracts from insurance companies whereby the insurance companies make periodic payments to prizewinners. Generally, in the event of insurance company default, the Fund is liable for the related annuity payments. However, certain prizewinners voluntarily assign their annuity rights to other parties and receive lump-sum payments in return. In the event of insurance company default where annuity rights have been voluntarily assigned by prizewinners, the Fund is not liable for the related annuity payments. At June 30, 2003, future payments of $381 million have been voluntarily assigned by prizewinners.

NOTE O - CERTAIN AGENCY FUND CLAIMS LIABILITIES

On March 20, 2002, the Governor signed Act No. 13 of 2002, known as the Medical Care Availability and Reduction of Error (MCare) Act. The Act transferred the assets, liabilities and rights of the Medical Professional Liability Catastrophe Loss Fund, an Agency Fund, to the MCare Fund, a new Agency Fund, which was also created by the Act. The transfer was effective October 1, 2002. Prior to that date, the predecessor Fund acted as a service agent to facilitate the payment of medical malpractice claims exceeding basic liability coverage carried by healthcare providers practicing in the Commonwealth. The Fund collected healthcare provider surcharges, as a percentage of insurance premiums for basic coverage, to pay claims and other costs paid on behalf of healthcare providers during the prior year. The actuarially computed liability to the healthcare providers for claims outstanding at June 30, 2003 totals $2.2 billion. The amount of expendable financial resources available to pay claims at June 30, 2003 is $23.8 million. This amount is reported as a fund liability. The remaining claims will be funded exclusively through surcharge assessments in future years as claims are settled and paid; as a result, a financial liability for remaining claims is not reported.

The Underground Storage Tank Indemnification Fund (the Fund), an Agency Fund, is used to collect fees from underground storage tank owners and operators sufficient to pay owners and operators for costs associated with corrective actions or for bodily injury or property damage caused by underground tank leaks and other releases. Owners and operators are assessed actuarially determined amounts to accumulate sufficient assets to pay claims. The Fund actuary has estimated potential claims of $3,539 million at June 30, 2003 ($431.8 million at June 30, 2002). The increase in the current year is due to a change in the estimate period, from 10 years in 2002 to 20 years in 2003, and a change in assumptions related to tank removal. Prior year claims estimates assumed that all non-heating oil bare steel tanks would be removed by 2005, reducing claims in future years. The current rate of inspection and removal of such tanks did not support the use of this assumption in developing the 2003 estimate. There are statutory limits on the extent of the Fund's liability to participating owners and operators; the Fund is not obligated beyond assets held at June 30, 2003. Owners and operators will be assessed for any claims exceeding Fund assets and no financial liability is reported for those claims.

NOTE P - DEFERRED COMPENSATION

The Commonwealth sponsors a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, which is administered by the State Employees' Retirement System, permits participants to defer a portion of their salary until future years. Amounts deferred under the plan are not available to employees until termination, retirement, death or unforeseeable emergency.

Of the $1,047 million in assets reported in the Deferred Compensation Fund, a Pension Trust Fund, at December 31, 2002, $1,016 million relates to primary government employees and $27 million relates to employees of discretely presented component units. The remaining balance of $4 million relates to organizations not included in the Commonwealth's financial reporting entity.

NOTE Q - JOINT VENTURE

The Commonwealth and various labor unions representing Commonwealth employees participate in a joint venture, the Pennsylvania Employees Benefit Trust Fund (PEBTF). The PEBTF establishes and provides health and welfare benefits for active Commonwealth employees and is a third party administrator for Commonwealth annuitant medical/hospital benefits. The Commonwealth is required to fund almost all necessary contributions to pay for the cost of providing benefits; the unions are not required to make contributions. Collective bargaining agreements and administrative policies establish contribution rates and/or amounts. During the fiscal year ended June 30, 2003, the Commonwealth contributed approximately $777 million to fund benefits. Neither the Commonwealth nor the unions have an equity interest in the PEBTF.

At June 30, 2003, the PEBTF reported total assets of $96 million, total liabilities and benefit obligations of $115 million, and a deficiency of net assets over benefit obligations of $19 million. The financial status of the PEBTF is monitored on an ongoing basis; financial stress is evident as a result of increasing benefit and other expenses. During the fiscal year ended June 30, 2003 the PEBTF reported a decrease in net assets available for benefits of $144 million for the Active Plan program. This was caused by a continuing increase in the cost of medical benefits incurred over an increase in contributions made by the Commonwealth. Also, investment income decreased significantly during the fiscal year due to a decrease in the average investment balance as the PEBTF liquidated certain investments to pay claims.

In August and September 2003, the PEBTF received a loan from the **Motor License Fund**, a Special Revenue Fund, to help fund the Active Plan until additional contributions could be made by the Commonwealth. The interest on the loan is calculated daily based on the daily yield of the Commonwealth's Fund 98, a short-term investment pool, and will be paid when the loan is paid off (which is expected to be on or before April 8, 2004). On December 23, 200, the General Assembly passed the 2003-2004 budget, wherein $80 million was appropriated to enable PEBTF to repay the **Motor License Fund** loan.

The PEBTF prepared an analysis that showed that, with the $80 million loan proceeds, net assets would exceed benefit obligations through June 30, 2004. However, such an analysis is based on many factors, including member utilization, medical cost inflation and administrative expense assumptions. To the extent such factors vary from actual conditions and experience, benefit obligations may exceed net assets throughout the remainder of the fiscal year ending June 30, 2004.

Effective October 1, 2003, the PEBTF changed certain benefit provisions under its current agreement with the Commonwealth and various labor unions. However, these changes in benefit provisions may not be sufficient to ensure that net assets will equal or exceed benefit obligations.

Audited financial statements for the PEBTF are available, by request, from:

William K. Schantzenbach
Chief Financial Officer
Pennsylvania Employees Benefit Trust Fund
150 South 43rd Street
Harrisburg, Pennsylvania 17111-5700

NOTE R – SUBSEQUENT EVENTS

Primary Government

On February 26, 2004, the Commonwealth issued $809.5 million of General Obligation Bonds, First Series of 2004 with an interest rate of 3.4 percent. The Commonwealth issued the bonds to refund a portion of seven separate issues of previously issued Commonwealth of Pennsylvania General Obligation Bonds in order to reduce debt service on its general obligation bonds, and to provide for the construction, acquisition and major rehabilitation of capital facilities projects and county and multi-county regional prison facility projects.

Discretely Presented Component Units

On April 10, 2003, the **Pennsylvania Property and Casualty Insurance Guaranty Association** and the Commonwealth Court of Pennsylvania approved an order of liquidation for White Hall Mutual Insurance Company.

On May 6, 2003, the **Pennsylvania Turnpike Commission (PTC)** approved a resolution for the defeasance of certain Oil Franchise Tax Revenue Senior Bonds, Series A of 1998 and Oil Franchise Tax Revenue Subordinate Bonds, Series B of 1998. The Commission will utilize both Oil Franchise Tax Revenue and Vehicle Registration Fee Revenue assets received prior to the issuance of the respective bond issues to provide sufficient funding for the defeasance. The defeasance occurred in July 2003. On May 20, 2003, the **PTC** approved resolution for the issuance of Oil Franchise Tax Revenue Bonds in an aggregate principal amount not to exceed $500 million. The proceeds from these bonds will be used to finance certain costs associated with capital projects as defined under Commonwealth of Pennsylvania Act 61.

On July 10, 2003, the **Philadelphia Regional Port Authority (PRPA)** issued Series 2003 Commonwealth Lease Revenue Bonds with a par value of $53,900,000 with a floating interest rate to refund the 1993 Lease Revenue Bonds. After Bond Insurance Premium of $171,000 and an Underwriter's Discount of $215,600, net proceeds of the issuance were $53,513,400. This was deposited with the Authority's Trustee along with $500,000 from the Authority representing the special Swap Reserve Fund and the $5,340,950 liquidated balance and investment earnings from the Debt Service Reserve Fund of the 1993 Lease Revenue Bonds. The Trustee transferred $771,224 to the Series 2003 Cost of Issuance Fund, $4,979,430 to the 2003 Debt Service Reserve Fund, $500,000 to the 2003 Swap Reserve Fund, and $53,103,676 was deposited to the Redemption Fund to pay principal, interest, and premium on the 1993 Lease Revenue Bonds that were due to mature in September 2020, rendering them no longer outstanding under the original indenture. The interest rate swap became effective on July 10, 2003. The 2003 Lease Revenue Bonds and all amounts due under the interest rate swap are payable from and secured by a pledge of and lien on all amounts received by or payable to the **PRPA** under the lease of port facilities to the Commonwealth.

On August 7, 2003, the **Pennsylvania Housing Finance Agency** issued $100 million of Single Family Mortgage Revenue Bonds, Series 2003-77 and $73.68 million of Single Family Mortgage Revenue Bonds Series 2003-78. The proceeds from these bond issuances were used to finance new loan purchases and refund existing bonds.

On July 1, 2003, variable interest rates charged to Federal Family Education Loan Program (FFELP) borrowers under loan programs administered by the **Pennsylvania Higher Education Assistance Agency (PHEAA)** decreased 0.64%, based on the 91-day U.S. Treasury Bill rate on the reset date of May 21, 2003. Under the net interest revenue section, the agency earned $4.4 million more than expected during 2003 because the borrower rate exceeded the lender rate for almost the entire year. Since July 1, 2003, the borrower rate has exceeded the lender rate, on average, by 0.20%. Changes in short-term interest rates will affect future results of operations. Since June 30, 2003 rates on 91-day U.S. Treasury Bills and rates on 3-month commercial paper have increased 0.05%. On July 1, 2003, **PHEAA** refunded $75.0 million of bonds with the proceeds from bonds issued on April 25, 2003. The bonds issued are variable-rate bonds with a weighted-average rate of 1.24% for the year ended June 30, 2003. The effective rate of the refunded bonds was 6.05%. On July 1, 2003, $312.9 million of student loan revenue bonds switched from a weighted-average fixed-rate of 2.64% to variable-rate debt. On September 5, 2003, the agency issued $300 million of student loan demand revenue bonds. The bonds issued are variable-rate debt that reset based upon auctions every 28 days and carried an initial rate of 1.15%. On October 1, 2003, the rate that the U. S. Department of Education (ED) pays for loan processing and issuance fees decreased from 65 basis points to 40 basis points. If the new rate had been in effect for the year ended June 30, 2003, federal fees would have been $5.6 million less than they were in the current year. On October 1, 2003, retention of collections on defaulted loans will decrease from 24% to 23%. If that new rate had been in effect for the year ended June 30, 2003, retention of collections on defaulted loans would have been $1.8 million less than it was in the current year. During the month of June 2003 the board of directors authorized the development of programs to deliver an additional $25 million of financial aid. As these programs are developed and implemented, net assets will be used to fund the financial aid. Finally, on December 10, 2003 **PHEAA** securitized $387.1 million of student loans.

Required Supplementary Information

Slifer House Museum

Lewisburg

BUDGETARY COMPARISON SCHEDULE
Budgeted Major Funds
General Fund *For the Fiscal Year Ended June 30, 2003*

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
REVENUES:					
State Programs:					
Taxes, net of refunds	$ 20,179,700	$ (98,800)	$ 20,080,900	$ (513,381)	$ 19,567,519
Liquor store profits transfer	155,000	-	155,000	-	155,000
Licenses and fees	136,700	-	136,700	(40,290)	96,410
Fines, penalties and interest	27,600	-	27,600	7,320	34,920
Investment income	90,282	-	90,282	(15,430)	74,852
Unclaimed property	50,500	-	50,500	231,799	282,299
Departmental services	2,269,652	884,483	3,154,135	-	3,154,135
Miscellaneous	341,518	-	341,518	(167,667)	173,851
TOTAL STATE PROGRAMS	23,250,952	785,683	24,036,635	(497,649)	23,538,986
Federal Programs	13,306,050	88,941	13,394,991	(469,928)	12,925,063
TOTAL REVENUES	36,557,002	874,624	37,431,626	(967,577)	36,464,049
EXPENDITURES:					
State Programs:					
Direction and supportive services	1,198,443	(15,146)	1,183,297	(37,015)	1,146,282
Protection of persons and property	2,767,348	364,676	3,132,024	(47,208)	3,084,816
Health and human services	8,689,887	282,514	8,972,401	(166,011)	8,806,390
Public education	8,956,199	40,034	8,996,233	(50,225)	8,946,008
Recreation and cultural enrichment	160,509	(2,006)	158,503	(3,375)	155,128
Debt service	349,138	259,239	608,377	(54)	608,323
Economic development	419,394	(1,984)	417,410	(7,124)	410,286
Transportation	399,484	1,628	401,112	(4,106)	397,006
TOTAL STATE PROGRAMS	22,940,402	928,955	23,869,357	(315,118)	23,554,239
Federal Programs	13,306,050	88,941	13,394,991	(469,928)	12,925,063
TOTAL EXPENDITURES	36,246,452	1,017,896	37,264,348	(785,046)	36,479,302
REVENUES OVER/(UNDER) EXPENDITURES	310,550	(143,272)	167,278	(182,531)	(15,253)
OTHER FINANCING SOURCES (USES):					
Prior year lapses	-	151,818	151,818	-	151,818
Transfer to Budget Stabilization Reserve Fund	(1,055)	1,055	-	(69,775)	(69,775)
TOTAL OTHER FINANCING SOURCES (USES)	(1,055)	152,873	151,818	(69,775)	82,043
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	309,495	9,601	319,096	(252,306)	66,790
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2002, RESTATED	142,535	-	142,535	-	142,535
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2003	$ 452,030	$ 9,601	$ 461,631	$ (252,306)	$ 209,325

- The notes to required supplementary information are an integral part of this schedule. -

BUDGETARY COMPARISON SCHEDULE
Budgeted Major Funds
Special Revenue Fund-Motor License *For the Fiscal Year Ended June 30, 2003*

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
REVENUES:					
State Programs:					
Taxes, net of refunds	$ 1,112,200	$ -	$ 1,112,200	$ (6,739)	$ 1,105,461
Licenses and fees	829,700	-	829,700	(879)	828,821
Fines, penalties and interest	30,420	-	30,420	(203)	30,217
Investment income	26,087	-	26,087	(13,326)	12,761
Departmental services	47,970	684,454	732,424	-	732,424
Miscellaneous	30,893	-	30,893	(9,384)	21,509
TOTAL STATE PROGRAMS	2,077,270	684,454	2,761,724	(30,531)	2,731,193
Federal Programs	1,621,059	15,327	1,636,386	(354,859)	1,281,527
TOTAL REVENUES	3,698,329	699,781	4,398,110	(385,390)	4,012,720
EXPENDITURES:					
State Programs:					
Direction and supportive services	66,792	113	66,905	(6,295)	60,610
Protection of persons and property	375,775	-	375,775	-	375,775
Public education	1,230	-	1,230	-	1,230
Recreation and cultural enrichment	1,000	-	1,000	-	1,000
Debt service	42,813	(50)	42,763	(1,206)	41,557
Transportation	1,618,826	684,891	2,303,717	(3,340)	2,300,377
TOTAL STATE PROGRAMS	2,106,436	684,954	2,791,390	(10,841)	2,780,549
Federal Programs	1,621,059	15,327	1,636,386	(354,859)	1,281,527
TOTAL EXPENDITURES	3,727,495	700,281	4,427,776	(365,700)	4,062,076
REVENUES UNDER EXPENDITURES	(29,166)	(500)	(29,666)	(19,690)	(49,356)
OTHER FINANCING SOURCES (USES):					
Prior year lapses	-	23,447	23,447	-	23,447
TOTAL OTHER FINANCING SOURCES	-	23,447	23,447	-	23,447
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(29,166)	22,947	(6,219)	(19,690)	(25,909)
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2002	56,358	-	56,358	-	56,358
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2003	$ 27,192	$ 22,947	$ 50,139	$ (19,690)	$ 30,449

- The notes to required supplementary information are an integral part of this schedule. -

BUDGETARY COMPARISON SCHEDULE
Budgeted Nonmajor Funds
Special Revenue Fund-Banking Department *For the Fiscal Year Ended June 30, 2003*

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
REVENUES:					
State Programs:					
Licenses and fees	$ 12,856	$ (362)	$ 12,494	$ 1,190	$ 13,684
Fines, penalties and interest	55	15	70	159	229
Investment income	1,002	(137)	865	(335)	530
TOTAL REVENUES	13,913	(484)	13,429	1,014	14,443
EXPENDITURES:					
State Programs:					
Direction and supportive services	13,722	-	13,722	(1,660)	12,062
TOTAL EXPENDITURES	13,722	-	13,722	(1,660)	12,062
REVENUES OVER (UNDER) EXPENDITURES	191	(484)	(293)	2,674	2,381
OTHER FINANCING SOURCES (USES):					
Prior year lapses	-	4	4	-	4
TOTAL OTHER FINANCING SOURCES	-	4	4	-	4
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	191	(480)	(289)	2,674	2,385
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2002	19,740	-	19,740	-	19,740
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2003	$ 19,931	$ (480)	$ 19,451	$ 2,674	$ 22,125

- The notes to required supplementary information are an integral part of this schedule. -

BUDGETARY COMPARISON SCHEDULE
Budgeted Nonmajor Funds
Special Revenue Fund-Milk Marketing *For the Fiscal Year Ended June 30, 2003*

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
REVENUES:					
State Programs:					
Licenses and fees	$ 2,167	$ (3)	$ 2,164	$ 27	$ 2,191
Fines, penalties and interest	10	-	10	(2)	8
Investment income	113	1	114	(62)	52
Miscellaneous	1	-	1	-	1
TOTAL REVENUES	2,291	(2)	2,289	(37)	2,252
EXPENDITURES:					
State Programs:					
Direction and supportive services	2,532	-	2,532	(19)	2,513
TOTAL EXPENDITURES	2,532	-	2,532	(19)	2,513
REVENUES UNDER EXPENDITURES	(241)	(2)	(243)	(18)	(261)
OTHER FINANCING SOURCES (USES):					
Prior year lapses	-	118	118	-	118
TOTAL OTHER FINANCING SOURCES	-	118	118	-	118
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(241)	116	(125)	(18)	(143)
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2002	1,519	-	1,519	-	1,519
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2003	$ 1,278	$ 116	$ 1,394	$ (18)	$ 1,376

- The notes to required supplementary information are an integral part of this schedule. -

BUDGETARY COMPARISON SCHEDULE
Budgeted Nonmajor Funds
Special Revenue Fund-Workmen's Compensation Administration ***For the Fiscal Year Ended June 30, 2003***

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
REVENUES:					
State Programs:					
Taxes, net of refunds	$ 51,635	$ -	$ 51,635	$ 3,328	$ 54,963
Fines, penalties and interest	31	-	31	(21)	10
Investment income	1,939	-	1,939	(1,317)	622
Departmental services	175	-	175	-	175
Miscellaneous	430	-	430	(293)	137
TOTAL REVENUES	54,210	-	54,210	1,697	55,907
EXPENDITURES:					
State Programs:					
Direction and supportive services	55,435	-	55,435	(94)	55,341
Economic development	175	-	175	-	175
TOTAL EXPENDITURES	55,610	-	55,610	(94)	55,516
REVENUES OVER (UNDER) EXPENDITURES	(1,400)	-	(1,400)	1,791	391
OTHER FINANCING SOURCES (USES):					
Prior year lapses	-	3,692	3,692	-	3,692
TOTAL OTHER FINANCING SOURCES	-	3,692	3,692	-	3,692
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(1,400)	3,692	2,292	1,791	4,083
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2002	39,785	-	39,785	-	39,785
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2003	$ 38,385	$ 3,692	$ 42,077	$ 1,791	$ 43,868

- The notes to required supplementary information are an integral part of this schedule. -

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Note 1 - Budget Preparation Process

The process of preparing the General Fund Budget for the Commonwealth of Pennsylvania begins nearly one year before the new budget takes effect on July 1 each year. The budget process begins in August of the year previous to the budget year with the distribution of both the Budget Instructions and Program Policy Guidelines by the Office of the Budget and the Governor's Office, respectively. These provide detailed guidelines and define major policy issues to be considered when agencies complete their budget requests. As required by statute, agencies must prepare budgets that indicate the cost of supporting activities at the level expected in the immediate budget year and the ensuing four budget years. The five-year horizon does not include future program changes but considers the requirements and demands of current law, regulation, policy and program decisions.

Agencies submit budget requests to the Secretary of the Budget beginning in early October. From October through January, the Office of the Budget reviews these requests for accuracy and adherence to policy guidelines and prepares funding recommendations for the Secretary of the Budget and the Governor.

During December, the Governor meets with leaders of the General Assembly to inform them of anticipated spending and revenue levels and to discuss related budgetary issues. The Governor then conducts reviews to make the final budget decisions. The Governor's Executive Budget is finalized in January and is submitted to the General Assembly in early February.

After receiving the budget document, the appropriations committees of both houses of the legislature hold hearings to review agency funding requests. The General Assembly passes the budget in the form of a General Appropriations Bill and individual appropriations bills. At the time of passage of these bills and their presentation to the Governor, the official revised revenue estimates for the budget year are issued. If the combined appropriations bills passed by the legislature exceed the revenue estimates, the Governor is required and has the authority to either veto entire appropriations bills or to reduce the amount of appropriations in order to produce a budget that is in balance. The Governor also has the power to reduce or veto any specific appropriation even if the total appropriations do not exceed estimated revenues. The Governor's signing of the appropriations bills and any revenue bills is the last step in the approval stage of the budget.

Additional information regarding Pennsylvania's budgeting process may be located at: http://www.oit.state.pa.us/budget

Note 2 – Basis of Budgeting

On the budgetary basis, certain estimated tax revenue accruals are recorded at fiscal year end for the **General Fund** and the **Motor License Fund**, a Special Revenue Fund. Accruals include sales and use taxes and personal income taxes, both applicable to the General Fund, and liquid fuels taxes applicable to the **Motor License Fund**. These taxes are estimated to be owed to the Commonwealth but are not collected by fiscal year end. Also, estimated encumbrances are established for all funds at fiscal year end to pay certain direct expenditures for salaries, wages, travel, and utility costs payable against current year appropriation authority but expended in the subsequent year. Over-estimates of prior year encumbrances are lapsed in the subsequent year and under-estimates are charged to subsequent year appropriation authority.

Budgeted revenues in the Budgetary Comparison Schedules represent official estimates while expenditures represent amounts originally adopted or legally amended. Actual amounts are presented on the budgetary basis. Because the budgetary basis differs from the modified accrual basis of accounting for governmental funds, a reconciliation of the differences between budgetary basis and the modified accrual basis of reporting is presented.

Note 3 - Reconciliation of Budgetary to GAAP Basis Amounts

The Commonwealth adopts formal annual budgets for two major governmental funds (**General Fund** and **Motor License Fund**, Special Revenue Fund) and three nonmajor governmental funds (Workmen's Compensation Administration, Banking Department, and Milk Marketing, Special Revenue funds). The Budgetary Comparison Schedules for Budgeted Major and Nonmajor Funds presents comparisons of the legally adopted budget, as amended, with actual data on a budgetary basis, which differs from governmental fund statement information primarily by the omission of certain revenue and expenditure accruals.

The following presents a reconciliation of the budgetary basis to the modified accrual basis of reporting (amounts in thousands):

	Major Budgeted Funds		Nonmajor Budgeted Funds		
	General Fund	Motor License Fund	Workmen's Compensation Administration Fund	Banking Department Fund	Milk Marketing Fund
Budgetary basis — revenues and other sources over (under) expenditures and other uses……	$66,790	$(25,909)	$4,083	$2,385	$(143)
Adjustments:					
To adjust revenues, other financing sources and related receivables and deferred revenue……..……...	(1,125,072)	16,838	(6,620)	(3,220)	(106)
To adjust expenditures, other financing uses and related accounts payable and and accrued liabilities……...	393,153	189,777	4,721	527	181
Net adjustments……	(731,919)	206,615	(1,899)	(2,693)	75
Modified accrual basis – net change in governmental fund balance……	$(665,129)	$180,706	$2,184	$(308)	$(68)

The above revenue adjustments include net revenue accruals, amounts to recognize certain pass-through grants and amounts to recognize certain intergovernmental revenues that are not reported for budgetary reporting purposes. Likewise, the above expenditure adjustments include net expenditure accruals, amounts to recognize certain pass-through grants and amounts to recognize certain expenditures related to Federal and other grants that are not reported for budgetary reporting purposes.

Note 4 – Budgetary Compliance

The General Assembly passes, and the Governor approves (or reduces or vetoes), individual appropriations as part of the annual budget adoption process. Budgetary expenditure control occurs at the appropriation level; this is the lowest level of legislative spending control. Encumbrances and expenditures within individual appropriations may not exceed total amounts appropriated plus actual augmentations (certain revenues credited to specific appropriations). Also, appropriation transfers between or within departments and any supplemental appropriations require both legislative and gubernatorial approval. The legislatively adopted budget for the **General Fund** includes $41.8 million in supplemental appropriations approved during the fiscal year ended June 30, 2003.

A separately available report, the "*Status of Appropriations*," demonstrates budgetary expenditure compliance for the **General Fund** for the fiscal year ended June 30, 2003. This report includes a variety of detail information and summaries related to individual appropriations. A second "*Status of Appropriations*" report (for Special Funds) demonstrates compliance for the four budgeted Special Revenue funds: **Motor License**, Workmen's Compensation Administration, Banking Department and Milk Marketing. Both "*Status*" reports are available from the Office of the Budget. The Governor controls spending by using executive authorizations for Special Revenue funds not controlled by legislatively adopted budgets.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Total reported actual expenditures for "Total State Programs" included in the Budgetary Comparison Schedule – Major Governmental Funds are based on appropriation, augmentation and lapse amounts reported in the respective June 30, 2003 "*Status of Appropriations*" (Total All Current State Ledgers) as follows (in thousands):

	"*Status*" Page Reference	Total Approved Appropriations	+	Total Actual Augmentations	-	Total Actual Lapses	=	Actual Expenditure Amounts
General Fund amounts.....	7[1]	$ 21,644,822		$ 3,154,135		$ 315,118		$ 24,483,839
Less: tax refunds.....	7[1]	(929,600)		-		-		(929,600)
Amount reported.....		$ 20,715,222		$ 3,154,135		$ 315,118		$ 23,554,239
Special Revenue Funds:								
Motor License Fund.....	47	$ 2,798,872		$ 2,016,040		$ 77,942		$ 4,736,970
less: reductions[2]		(739,906)		(1,283,616)		(67,101)		(1,956,421)
Amount reported.....		$ 2,058,966		$ 732,424		$ 10,841		$ 2,780,549
Workmen's Compensation Administration Fund	242	$ 55,435		$ 175		$ 94		$ 55,516
Banking Department Fund	85	$ 13,722		$ -		$ 1,660		$ 12,062
Milk Marketing Fund	91	$ 2,532		$ -		$ 19		$ 2,513

Total actual expenditures for "Federal Programs" for the **General Fund** are derived from the **General Fund** "*Status*," pkt page 225, page no. 225 "Summary of All Current Federal Ledgers by Character of Expenditure" as follows (in thousands): Commitments of $850,294 and Expenditures of $11,075,820, for a total of $11,926,114.

Total actual expenditures for "Federal Programs," Special Revenue funds, are derived from the Special Funds "*Status*" as follows (in thousands): **Motor License** - $1,090,124 (calculated in footnote 3 below).

[1] Pkt page 7, page no. 7, "Summary of All Current State Ledgers by Character of Expenditure," **General Fund** "*Status of Appropriations*."

[2] Excludes the following appropriation symbols, beginning on page 50, Special Funds "*Status of Appropriations***:**" 010-78-571-02-10; 010-78-572-02-10; 010-78-579-02-10; 010-73-132-02-20; 010-38-226-02-20; 010-78-172-02-20; 010-78-173-02-20; 010-78-174-02-20; and 010-78-177-02-20 through 010-78-185-02-20.

[3] Consists of $1,281,527 in Year-to-Date "Total Federal Funds" on pages 113 and 114 of the "*Report of Revenues and Receipts*" less $191,403 in Year-to-Date Federal Funds amounts for the following revenue codes (also on pages 113 and 114 of the "*Report*"): 010811-008051-101; 010811-008181-101; 010811-008181-106; 010811-008181-108; 010811-008232-101; 010811-008284-101; 010811-008289-101; and 010811-008289-102.

Note 5 – Restatement of June 30, 2002 Unreserved/Undesignated General Fund Fund Balance (Budgetary Basis)

The Budgetary Comparison schedule reflects a restatement of minus $300 thousand to the June 30, 2002 budgetary basis Unreserved/Undesignated fund balance. The restatement includes in fund balance the result of a transfer of spending authority from the current year Department of Public Welfare Long-Term Care appropriation to a prior year Pennsylvania Emergency Management Agency appropriation created in the 2001-2002 fiscal year. This appropriation was created to provide emergency and disaster relief as a result of the airplane crash in Somerset County and catastrophic events in New York City, New York and Washington D.C. on September 11, 2001.

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Combining Financial Statements

Penn State Nittany Lion

State College

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total
ASSETS				
Cash	$ 17,267	$ -	$ 3,302	$ 20,569
Temporary investments	1,203,685	39,768	489,044	1,732,497
Long-term investments	441,185	-	-	441,185
Receivables, net:				
Taxes	17,548	-	-	17,548
Accounts	14,156	4,611	-	18,767
Accrued interest	4,585	4	-	4,589
Notes and loans	38,265	-	-	38,265
Lease rentals	-	1,334	-	1,334
Other	3	-	-	3
Due from other funds	21,488	-	44,869	66,357
Due from pension trust funds	-	13	-	13
Due from component units	-	-	4,814	4,814
Due from Federal government	16,630	-	-	16,630
Advances to other funds	3,000	-	-	3,000
TOTAL ASSETS	$ 1,777,812	$ 45,730	$ 542,029	$ 2,365,571
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	$ 221,284	$ -	$ 113,135	$ 334,419
Securities lending obligations	267,748	6,083	74,835	348,666
Due to other funds	22,309	-	704	23,013
Due to pension trust funds	52	-	-	52
Due to political subdivisions	9,721	-	51,726	61,447
Due to other governments	744	-	-	744
Deferred revenue	28,998	5,945	-	34,943
Advances from other funds	10,333	-	-	10,333
Other liabilities	-	1,017	-	1,017
TOTAL LIABILITIES	561,189	13,045	240,400	814,634
Fund balances:				
Encumbrances	68,092	-	644,428	712,520
Advances	3,000	-	-	3,000
Loans receivable	38,186	-	-	38,186
Other	55,065	-	1,819	56,884
Unreserved:				
Designated for:				
Capital projects	-	-	54,026	54,026
Debt service:				
Retirement of general obligation bonds	-	32,685	-	32,685
Undesignated (deficit)	1,052,280	-	(398,644)	653,636
TOTAL FUND BALANCES	1,216,623	32,685	301,629	1,550,937
TOTAL LIABILITIES AND FUND BALANCES	$ 1,777,812	$ 45,730	$ 542,029	$ 2,365,571

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-NONMAJOR GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2003

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total
REVENUES:				
Taxes	$ 189,652	$ -	$ 20,438	$ 210,090
Licenses and fees	257,172	-	114	257,286
Intergovernmental	143,994	-	-	143,994
Charges for sales and services	115,458	-	11,499	126,957
Investment income	49,559	12,880	8,543	70,982
Lease rental principal and interest	-	329	-	329
Other	7,145	2	223	7,370
TOTAL REVENUES	762,980	13,211	40,817	817,008
EXPENDITURES:				
Current:				
Direction and supportive services	1,045	1	10,371	11,417
Protection of persons and property	345,410	-	2,034	347,444
Health and human services	487,907	-	-	487,907
Public education	-	-	22,622	22,622
Recreation and cultural enrichment	112,375	-	31,855	144,230
Economic development	180,947	-	242,303	423,250
Transportation	177,888	-	144,739	322,627
Capital outlay	3,063	-	347,165	350,228
Debt service:				
Principal retirement	-	468,391	530,005	998,396
Interest and fiscal charges	-	290,065	23,616	313,681
TOTAL EXPENDITURES	1,308,635	758,457	1,354,710	3,421,802
REVENUES UNDER EXPENDITURES	(545,655)	(745,246)	(1,313,893)	(2,604,794)
OTHER FINANCING SOURCES (USES):				
Bond proceeds	-	-	1,324,167	1,324,167
Refunding bond proceeds	-	837,991	-	837,991
Transfers in	543,838	759,826	-	1,303,664
Transfers out	(89,430)	-	(90,300)	(179,730)
Payment to refunded bond escrow agent	-	(837,991)	-	(837,991)
NET OTHER FINANCING SOURCES	454,408	759,826	1,233,867	2,448,101
NET CHANGE IN FUND BALANCES	(91,247)	14,580	(80,026)	(156,693)
FUND BALANCES JULY 1, 2002	1,307,870	18,105	381,655	1,707,630
FUND BALANCES JUNE 30, 2003	$ 1,216,623	$ 32,685	$ 301,629	$ 1,550,937

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Special Revenue Funds

Gettysburg Battlefield

Gettysburg

SPECIAL REVENUE FUNDS
DESCRIPTION
NONMAJOR FUNDS

Special revenue funds account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.

Banking Department Fund — to account for the administration of the Department of Banking and regulation of financial institutions. Revenue is received from fees, assessments, charges and penalties collected or recovered from persons, firms, corporations or associations regulated by the Department of Banking.

Milk Marketing Fund — to account for the operation of the Milk Marketing Board and to serve as a depository for amounts due to dairy farmers from underpayments by dealers. Revenue is received from license fees, fines, penalties and permits relating to the milk industry.

Workmen's Compensation Administration Fund — to account for the administration of the Pennsylvania Workmen's Compensation Act and the Pennsylvania Occupational Disease Act. Insurance companies and self-insured businesses are assessed a periodic fee for costs incurred in administering these acts.

Workmen's Compensation Security Fund — to account for the payment of workmen's compensation claims to individuals who are insured by an insolvent insurance company and for the costs to administer the program. Funds are derived from an annual assessment on all insurance carriers authorized to transact and provide workmen's compensation insurance in the Commonwealth.

Catastrophic Loss Benefits Fund — to account for the payment of medical and rehabilitative expenses over $100,000 to a lifetime aggregate of $1 million to residents injured in a motor vehicle accident.

Pharmaceutical Assistance Fund — to account for the payment of prescription drugs and insulin supplies for eligible Commonwealth recipients who are at least 65 years old.

Recycling Fund — to account for grants for recycling solid waste, market and waste minimization studies and public information and educational activities. Financing for the planning, processing, resource recovery and recycling of solid waste is generated by a fee on all waste disposed of in landfills or processed by resource recovery facilities.

Fish and Boat Fund — to account for the administration and enforcement of fishing and boating laws and for the protection, propagation, management and preservation of aquatic life.

Game Fund — to account for the administration and enforcement of game laws and for the protection, propagation, management and preservation of game and wildlife.

Hazardous Sites Cleanup Fund — to account for cleaning up abandoned hazardous waste sites throughout the Commonwealth and restoring the land to productive use.

Other — to account for programs related to conservation and protection of natural resources, the preservation of historical landmarks, administrative and regulatory activities of various departmental programs, and other miscellaneous Commonwealth activities. This other category is an aggregation of twenty-six individual special revenue funds.

There are a total of thirty-eight individual special revenue funds; **Motor License** and **Tobacco Settlement** special revenue funds are reported as Major Funds in the basic financial statements.

COMBINING BALANCE SHEET-NONMAJOR GOVERNMENTAL FUNDS
Special Revenue Funds

June 30, 2003

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Budgeted Funds											
	Banking Department	Milk Marketing	Workmen's Compensation Admin.	Workmen's Compensation Security	Catastrophic Loss	Pharmaceutical Assistance	Recycling	Fish and Boat	Game	Hazardous Sites Cleanup	Other	Total
ASSETS												
Cash	$ 46	$ 2	$ 90	$ 55	$ -	$ 3,467	$ -	$ 7	$ 146	$ -	$ 13,454	$ 17,267
Temporary investments	29,408	3,008	50,587	112,297	125,532	178,303	89,543	42,944	32,264	101,241	438,558	1,203,685
Long-term investments	-	-	-	441,185	-	-	-	-	-	-	-	441,185
Receivables, net:												
Taxes	-	-	-	-	-	-	-	-	-	-	17,548	17,548
Accounts	4,135	-	1	-	7,131	2,659	-	-	65	-	165	14,156
Accrued interest	120	-	73	3,769	-	-	-	-	-	-	623	4,585
Loans	-	-	-	-	-	-	435	-	-	-	37,830	38,265
Other	-	-	-	-	-	-	-	-	-	-	3	3
Due from other funds	-	-	18	-	-	4,973	-	1,246	208	797	14,246	21,488
Due from Federal government	-	-	-	-	-	-	-	3,783	1,947	-	10,900	16,630
Advances to other funds	-	-	-	-	-	-	-	-	-	3,000	-	3,000
TOTAL ASSETS	$ 33,709	$ 3,010	$ 50,769	$ 557,306	$ 132,663	$ 189,402	$ 89,978	$ 47,980	$ 34,630	$ 105,038	$ 533,327	$ 1,777,812
LIABILITIES AND FUND BALANCES												
Liabilities:												
Accounts payable and accrued liabilities	$ 933	$ 181	$ 2,859	$ 78,186	$ 13,666	$ 34,697	$ 1,386	$ 4,359	$ 5,644	$ 2,992	$ 76,381	$ 221,284
Securities lending obligations	5,395	552	-	76,949	23,031	32,713	16,428	7,879	5,919	18,574	80,308	267,748
Due to other funds	156	18	140	14	26	-	72	151	596	5,113	16,023	22,309
Due to pension trust funds	1	-	6	-	-	-	-	20	10	2	13	52
Due to political subdivisions	-	-	-	-	-	-	6,512	-	1	153	3,055	9,721
Due to other governments	22	6	81	-	-	-	-	115	213	1	306	744
Deferred revenue	7,413	667	10	-	-	-	-	2,321	-	-	18,587	28,998
Advances from other funds	-	-	-	-	-	10,333	-	-	-	-	-	10,333
TOTAL LIABILITIES	13,920	1,424	3,096	155,149	36,723	77,743	24,398	14,845	12,383	26,835	194,673	561,189
Fund balances:												
Encumbrances	-	33	1,276	-	-	-	4,117	851	2,313	2,947	56,555	68,092
Advances	-	-	-	-	-	-	-	-	-	3,000	-	3,000
Loans receivable	-	-	-	-	-	-	435	-	-	-	37,751	38,186
Other	-	-	662	-	-	4,624	4,701	1,384	189	-	43,505	55,065
Unreserved:												
Undesignated	19,789	1,553	45,735	402,157	95,940	107,035	56,327	30,900	19,745	72,256	200,843	1,052,280
TOTAL FUND BALANCES	19,789	1,586	47,673	402,157	95,940	111,659	65,580	33,135	22,247	78,203	338,654	1,216,623
TOTAL LIABILITIES AND FUND BALANCES	$ 33,709	$ 3,010	$ 50,769	$ 557,306	$ 132,663	$ 189,402	$ 89,978	$ 47,980	$ 34,630	$ 105,038	$ 533,327	$ 1,777,812

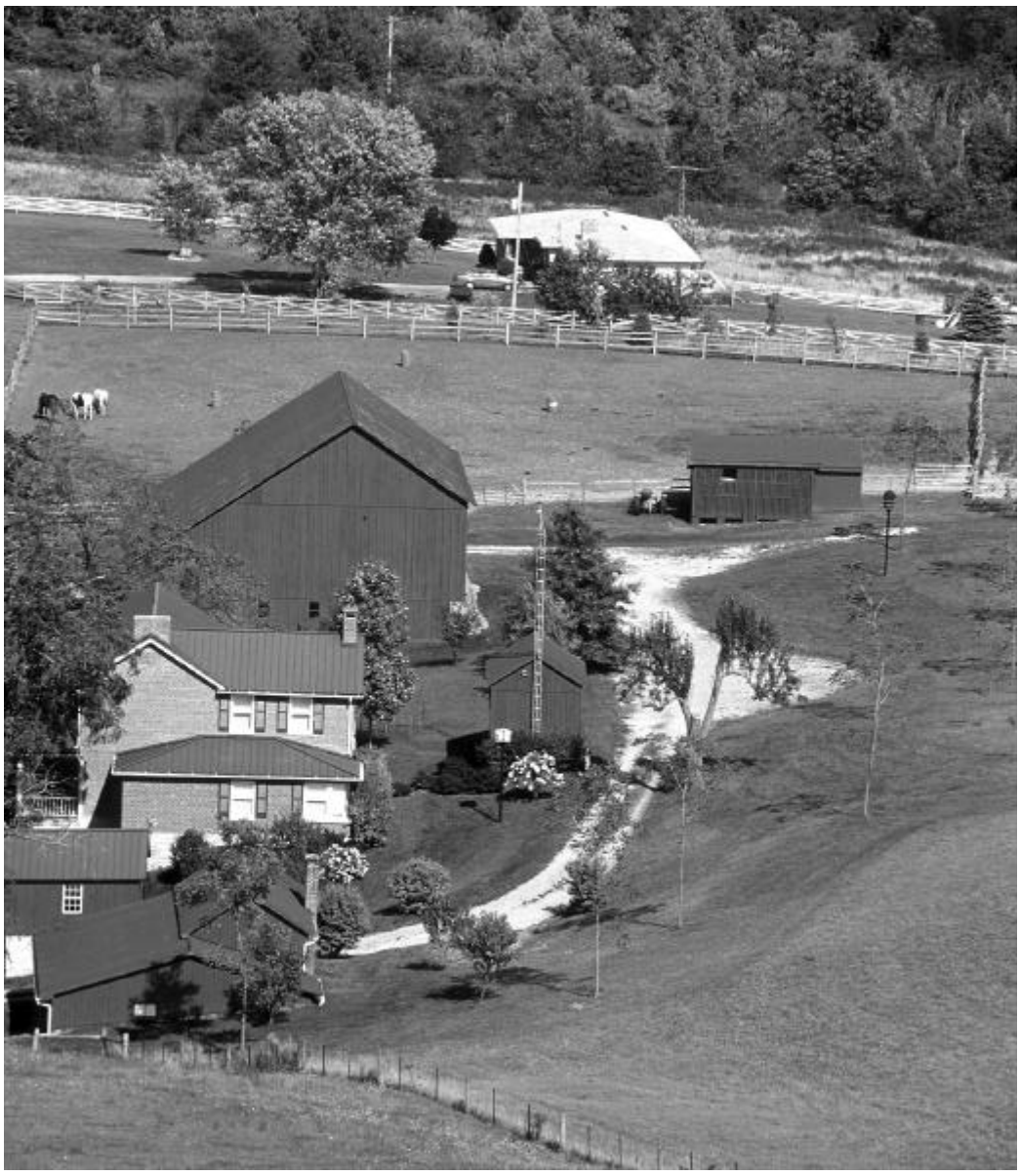
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Special Revenue Funds

For the Fiscal Year Ended June 30, 2003

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Banking Department	Milk Marketing	Workmen's Compensation Admin.	Workmen's Compensation Security	Catastrophic Loss	Pharmaceutical Assistance	Recycling	Fish and Boat	Game	Hazardous Sites Cleanup	Other	Total
REVENUES:												
Taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 189,652	$ 189,652
Licenses and fees	4,620	2,199	10	7,701	41,969	-	46,985	24,445	39,278	(13,865)	103,830	257,172
Intergovernmental	-	-	-	-	-	-	-	10,132	8,439	-	125,423	143,994
Charges for sales and services	5,797	-	51,999	-	-	1,371	-	1,583	15,839	-	38,869	115,458
Investment income	805	64	838	22,864	2,578	(801)	2,316	768	1,153	2,848	16,126	49,559
Other	5	1	132	-	2	-	28	151	(178)	7,834	(830)	7,145
TOTAL REVENUES	11,227	2,264	52,979	30,565	44,549	570	49,329	37,079	64,531	(3,183)	473,070	762,980
EXPENDITURES:												
Current:												
Direction and supportive services	389	-	-	192	-	-	-	-	-	-	464	1,045
Protection of persons and property	11,146	2,332	67	91,747	11,546	-	50,314	-	-	37,882	140,376	345,410
Health and human services	-	-	46,778	-	-	393,348	-	-	-	-	47,781	487,907
Recreation and cultural enrichment	-	-	-	-	-	-	-	36,323	64,601	-	11,451	112,375
Economic development	-	-	150	-	-	-	-	-	-	-	180,797	180,947
Transportation	-	-	-	-	-	-	-	-	-	-	177,888	177,888
Capital outlay	-	-	-	-	-	-	-	360	2,245	-	458	3,063
TOTAL EXPENDITURES	11,535	2,332	46,995	91,939	11,546	393,348	50,314	36,683	66,846	37,882	559,215	1,308,635
REVENUES OVER (UNDER) EXPENDITURES	(308)	(68)	5,984	(61,374)	33,003	(392,778)	(985)	396	(2,315)	(41,065)	(86,145)	(545,655)
OTHER FINANCING SOURCES (USES):												
Transfers in—Note H	-	-	-	-	-	439,943	5,031	1,027	-	-	97,837	543,838
Transfers out—Note H	-	-	(3,800)	(114)	(37)	-	(26,500)	-	(84)	(26,815)	(32,080)	(89,430)
NET OTHER FINANCING SOURCES (USES)	-	-	(3,800)	(114)	(37)	439,943	(21,469)	1,027	(84)	(26,815)	65,757	454,408
NET CHANGE IN FUND BALANCES	(308)	(68)	2,184	(61,488)	32,966	47,165	(22,454)	1,423	(2,399)	(67,880)	(20,388)	(91,247)
FUND BALANCES, JULY 1, 2002	20,097	1,654	45,489	463,645	62,974	64,494	88,034	31,712	24,646	146,083	359,042	1,307,870
FUND BALANCES, JUNE 30, 2003	$ 19,789	$ 1,586	$ 47,673	$ 402,157	$ 95,940	$ 111,659	$ 65,580	$ 33,135	$ 22,247	$ 78,203	$ 338,654	$ 1,216,623

Debt Service Funds



Chalk Hill

Fayette County

DEBT SERVICE FUNDS
DESCRIPTION
NONMAJOR FUNDS

Debt service funds account for the accumulation of resources, principally from transfers from other Funds, for the payment of general long-term debt principal and interest.

Disaster Relief Redemption Fund — these funds account for the payment of principal and interest on bonds issued for the rehabilitation of areas of the Commonwealth affected by the floods of 1971, 1972, and 1977. Funding consists of transfers from the General Fund and investment income.

Pennsylvania Infrastructure Investment Authority (PENNVEST) Redemption Fund — to account for the payment of principal and interest on bonds issued for loans to local water companies for the repair, construction, extension and improvement of water supply systems, dams and port facilities and water control systems. Funding consists of transfers from the General Fund and the Pennsylvania Infrastructure Investment Authority Fund and investment income.

Capital Debt Fund — to account for the payment of principal and interest related to general obligation bonds issued for capital projects authorized by Capital Budget Acts. Funding consists of transfers from the General Fund and the Motor License Fund, facility rental and investment income.

Pennsylvania Economic Revitalization Sinking Fund — to account for the payment of principal and interest on bonds issued for the promotion of economic redevelopment throughout Pennsylvania for grants and loans for industrial and small business development. Funding consists of transfers from the General Fund and the Pennsylvania Economic Revitalization Fund and investment income.

Water Facilities Loan Redemption Fund — to account for the payment of principal and interest on bonds issued for the implementation of the water project loan referendum to provide loans to local water companies for repair, construction and improvement to water supply systems. Funding consists of transfers from the General Fund and the Water Facilities Loan Fund, investment income and proceeds from the sale, lease or disposal of loan collateral.

Land and Water Development Sinking Fund — to account for the payment of principal and interest on bonds issued for the acquisition, development and improvements to Commonwealth land and water facilities. Funding consists of transfers from the General Fund, the Land and Water Development Fund and investment income.

Other — these funds account for the payment of principal and interest on bonds issued for loans to nursing homes and volunteer fire companies and for compensation to Vietnam conflict veterans. Funding consists primarily of transfers from the General Fund and investment income. This other category is an aggregation of eight individual debt service funds.

There are a total of fourteen individual debt service funds; all are reported as nonmajor funds.

COMBINING BALANCE SHEET-NONMAJOR GOVERNMENTAL FUNDS
Debt Service Funds

June 30, 2003

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Disaster Relief Redemption	Pennsylvania Infrastructure Investment Authority Redemption	Capital Debt	Pennsylvania Economic Revitalization Sinking	Water Facilities Loan Redemption	Land and Water Development Sinking	Other	Total
ASSETS								
Temporary investments	-	3,906	35,846	6	-	10	-	39,768
Receivables, net:								
Accounts	-	-	4,611	-	-	-	-	4,611
Accrued interest	-	4	-	-	-	-	-	4
Lease rentals	-	-	1,334	-	-	-	-	1,334
Due from pension trust funds—Note H	-	-	-	-	-	13	-	13
TOTAL ASSETS	$ -	$ 3,910	$ 41,791	$ 6	$ -	$ 23	$ -	$ 45,730
LIABILITIES AND FUND BALANCES								
Liabilities:								
Securities lending obligations	$ -	$ 598	$ 5,485	$ -	$ -	$ -	$ -	$ 6,083
Deferred revenue	-	-	5,945	-	-	-	-	5,945
Other liabilities	-	-	1,017	-	-	-	-	1,017
TOTAL LIABILITIES	-	598	12,447	-	-	-	-	13,045
Fund balances:								
Unreserved:								
Designated for:								
Debt service:								
Retirement of general obligation bonds	-	3,312	29,344	6	-	23	-	32,685
TOTAL FUND BALANCES	-	3,312	29,344	6	-	23	-	32,685
TOTAL LIABILITIES AND FUND BALANCES	$ -	$ 3,910	$ 41,791	$ 6	$ -	$ 23	$ -	$ 45,730

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Debt Service Funds

For the Fiscal Year Ended June 30, 2003

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Disaster Relief Redemption	Pennsylvania Infrastructure Investment Authority Redemption	Capital Debt	Pennsylvania Economic Revitalization Sinking	Water Facilities Loan Redemption	Land and Water Development Sinking	Other	Total
REVENUES:								
Investment income	$ -	$ 165	$ 12,616	$ 4	$ -	$ 95	$ -	$ 12,880
Lease rental principal and interest	-	-	329	-	-	-	-	329
Other	1	-	-	-	-	1	-	2
TOTAL REVENUES	1	165	12,945	4	-	96	-	13,211
EXPENDITURES:								
Current:								
Direction and supportive services	-	-	-	-	-	-	1	1
Debt service:								
Principal retirement	8,130	12,280	422,771	1,290	5,575	3,645	14,700	468,391
Interest and fiscal charges	1,587	6,422	272,392	463	2,734	376	6,091	290,065
TOTAL EXPENDITURES	9,717	18,702	695,163	1,753	8,309	4,021	20,792	758,457
REVENUES UNDER EXPENDITURES	(9,716)	(18,537)	(682,218)	(1,749)	(8,309)	(3,925)	(20,792)	(745,246)
OTHER FINANCING SOURCES (USES):								
Refunding bond proceeds	-	-	837,991	-	-	-	-	837,991
Transfers in	9,716	-	715,344	1,729	8,309	3,937	20,791	759,826
Payment to refunded bond escrow agent	-	-	(837,991)	-	-	-	-	(837,991)
NET OTHER FINANCING SOURCES	9,716	-	715,344	1,729	8,309	3,937	20,791	759,826
NET CHANGE IN FUND BALANCES	-	(18,537)	33,126	(20)	-	12	(1)	14,580
FUND BALANCES (DEFICIT), JULY 1, 2002	-	21,849	(3,782)	26	-	11	1	18,105
FUND BALANCES, JUNE 30, 2003	$ -	$ 3,312	$ 29,344	$ 6	$ -	$ 23	$ -	$ 32,685

Capital Projects Funds

Swan Memorial Fountain

Philadelphia

CAPITAL PROJECTS FUNDS
DESCRIPTION
NONMAJOR FUNDS

Capital projects funds account for financial resources to be used for the acquisition or construction of major capital facilities, including those provided to political subdivisions or other public organizations.

Capital Facilities Fund — to account for general obligation bond proceeds used to fund capital projects specifically itemized and authorized by Capital Budget Acts.

Keystone Recreation, Park and Conservation Fund — to account for bond proceeds and a percentage of the state realty transfer tax. The amounts are used to acquire, improve and expand Commonwealth and community parks, recreation facilities, historic sites, zoos, public libraries, nature preserves and wildlife habitats and other recreational areas and facilities.

Local Criminal Justice Fund — to account for the proceeds of bonds issued for grants to counties and multi-county authorities for the repair, expansion, construction, rehabilitation and improvement of local correctional facilities or multi-county regional prison facilities.

There are a total of three individual capital projects funds; all are reported as nonmajor funds.

COMBINING BALANCE SHEET-NONMAJOR GOVERNMENTAL FUNDS
Capital Projects Funds

June 30, 2003

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Capital Facilities	Keystone Recreation, Park and Conservation	Local Criminal Justice	Total
ASSETS				
Cash	$ 3,185	$ 117	$ -	$ 3,302
Temporary investments	359,468	128,324	1,252	489,044
Due from other funds	39,681	5,188	-	44,869
Due from component units	4,814	-	-	4,814
TOTAL ASSETS	$ 407,148	$ 133,629	$ 1,252	$ 542,029
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	$ 111,164	$ 1,971	$ -	$ 113,135
Securities lending obligations	55,007	19,636	192	74,835
Due to other funds	4	700	-	704
Due to political subdivisions	45,985	5,067	674	51,726
TOTAL LIABILITIES	212,160	27,374	866	240,400
Fund balances:				
Fund balance:				
Reserved for:				
Encumbrances	591,813	52,582	33	644,428
Other	1,819	-	-	1,819
Unreserved:				
Designated for:				
Capital projects	-	53,673	353	54,026
Undesignated deficit	(398,644)	-	-	(398,644)
TOTAL FUND BALANCES	194,988	106,255	386	301,629
TOTAL LIABILITIES AND FUND BALANCES	$ 407,148	$ 133,629	$ 1,252	$ 542,029

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-NONMAJOR GOVERNMENTAL FUNDS

Capital Projects Funds

For the Fiscal Year Ended June 30, 2003

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Capital Facilities	Keystone Recreation, Park and Conservation	Local Criminal Justice	Total
REVENUES:				
Taxes	$ -	$ 20,438	$ -	$ 20,438
Licenses and fees	-	114	-	114
Charges for sales and services	11,499	-	-	11,499
Investment income	6,014	2,500	29	8,543
Other	257	(34)	-	223
TOTAL REVENUES	17,770	23,018	29	40,817
EXPENDITURES:				
Current:				
Direction and supportive services	10,371	-	-	10,371
Protection of persons and property	848	-	1,186	2,034
Public education	16,603	6,019	-	22,622
Recreation and cultural enrichment	(979)	32,834	-	31,855
Economic development	242,303	-	-	242,303
Transportation	144,739	-	-	144,739
Capital outlay	347,165	-	-	347,165
Debt service:				
Principal retirement	530,005	-	-	530,005
Interest and fiscal charges	23,616	-	-	23,616
TOTAL EXPENDITURES	1,314,671	38,853	1,186	1,354,710
REVENUES UNDER EXPENDITURES	(1,296,901)	(15,835)	(1,157)	(1,313,893)
OTHER FINANCING SOURCES (USES):				
Bond proceeds	1,324,167	-	-	1,324,167
Transfers out	(90,000)	(300)	-	(90,300)
NET OTHER FINANCING SOURCES (USES)	1,234,167	(300)	-	1,233,867
NET CHANGE IN FUND BALANCES	(62,734)	(16,135)	(1,157)	(80,026)
FUND BALANCES, JULY 1, 2002	257,722	122,390	1,543	381,655
FUND BALANCES, JUNE 30, 2003	$ 194,988	$ 106,255	$ 386	$ 301,629

Enterprise Funds

Bushkill Falls

Bushkill

ENTERPRISE FUNDS
DESCRIPTION
NONMAJOR FUNDS

Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises. Costs of providing goods and services to the general public on a continuing basis, including depreciation, are financed or recovered primarily through user charges.

State Stores Fund — to account for the general operations of the Pennsylvania Liquor Control Board. Expenses include all costs associated with the operation and administration of the liquor store system and enforcement of the Liquor Control Law.

Small Business First Fund — to account for and provide loans to eligible small businesses for capital development projects which will create or preserve employment opportunities and which will enhance business development in Pennsylvania. Sources of revenue include loan principal and interest payments, transfers from the General Fund, Federal funds and investment income.

Volunteer Companies Loan Fund — to account for and provide low-interest loans for acquisition and replacement of volunteer fire, ambulance and rescue company equipment and facilities.

Machinery and Equipment Loan Fund — to account for and provide low-interest loans to finance machinery and equipment purchases for eligible Pennsylvania businesses to facilitate their growth, competitiveness and value-added capacity. Sources of revenue include loan interest payments, General Fund appropriations and investment income.

Coal and Clay Mine Subsidence Insurance Fund — to account for and provide insurance coverage to homeowners in mining areas against damages resulting from mine subsidence.

Pennsylvania Infrastructure Bank — to account for and provide loans to, or enter into leases with, qualified borrowers to finance the costs of transportation projects.

Minority Business Development Fund — to account for and provide low-interest and short-term loans, loan and bond guarantees and other financial and technical assistance, to eligible minority business enterprises and for operating expenses of the Pennsylvania Minority Business Development Authority. Sources of revenue include loan repayments, transfers from the General Fund and investment income.

Other — to account for enterprise operations including activities associated with low interest loans to manufacturers, vocational rehabilitation services, and loans and grants provided to attract industrial, manufacturing or research and development enterprises to the Commonwealth. This other category is an aggregation of four individual enterprise funds.

There are a total of fifteen individual enterprise funds; **Unemployment Compensation, State Workmen's Insurance, State Lottery** and **Tuition Payment** enterprise funds are reported as Major Funds in the basic financial statements.

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	State Stores (June 24, 2003)	Small Business First	Volunteer Companies Loan	Machinery and Equipment Loan	Coal and Clay Mine Sub Insurance	PA Infrastructure Bank	Minority Business Development	Other Funds	Total
ASSETS									
Current assets:									
Cash	$ 14,640	$ 680	$ 132	$ 175	$ -	$ -	$ -	$ 183	$ 15,810
Temporary investments	53,303	61,621	7,433	37,376	49,415	27,077	5,215	18,108	259,548
Receivables:									
Accounts	2,876	-	-	-	-	-	-	365	3,241
Accrued interest	-	398	138	228	-	605	17	5	1,391
Loans	-	15,078	14,282	9,993	-	1,281	394	573	41,601
Other	-	4	-	17	-	-	1	-	22
Due from other funds	359	-	-	-	40	-	-	2,076	2,475
Due from component units	-	-	-	-	-	-	-	3	3
Due from Federal government	-	-	-	-	-	-	-	5	5
Inventory	161,567	-	-	-	-	-	-	82	161,649
Prepaid expenses	1,772	-	-	-	-	-	-	-	1,772
Total current assets	234,517	77,781	21,985	47,789	49,455	28,963	5,627	21,400	487,517
Noncurrent assets:									
Receivables:									
Loans	-	58,322	97,964	23,001	-	10,389	1,116	1,530	192,322
Non-depreciable capital assets—Note E:									
Land	323	-	-	-	-	-	-	-	323
Construction in progress	-	-	-	-	-	-	-	6,708	6,708
Depreciable capital assets—Note E:									
Buildings and building improvements	15,160	-	-	-	-	-	-	10,567	25,727
Machinery and equipment	53,893	-	-	-	-	-	-	14,168	68,061
Less: accumulated depreciation	(39,798)	-	-	-	-	-	-	(20,190)	(59,988)
Net depreciable capital assets	29,255	-	-	-	-	-	-	4,545	33,800
Total noncurrent assets	29,578	58,322	97,964	23,001	-	10,389	1,116	12,783	233,153
TOTAL ASSETS	264,095	136,103	119,949	70,790	49,455	39,352	6,743	34,183	720,670
LIABILITIES AND NET ASSETS									
Current Liabilities:									
Accounts payable and accrued liabilities	89,672	3,301	-	71	579	-	-	983	94,606
Securities lending obligations	8,146	11,305	1,363	6,857	9,066	4,894	957	3,396	45,984
Due to other funds	21,389	4	2	4	-	2,716	-	186	24,301
Due to pension trust funds	72	-	-	-	-	-	-	-	72
Due to other governments	487	-	-	-	2	-	-	6	495
Deferred revenue	-	-	75	-	2,226	-	-	-	2,301
Compensated absences	6,684	-	-	-	-	-	-	376	7,060
Other liabilities	3,060	-	-	-	-	-	-	165	3,225
Total Current Liabilities	129,510	14,610	1,440	6,932	11,873	7,610	957	5,112	178,044
Non-Current Liabilities:									
Advances from other funds	85,000	-	-	-	-	-	-	-	85,000
Self insurance	13,941	-	-	-	-	-	-	752	14,693
Insurance loss liability	-	-	-	-	733	-	-	-	733
Compensated absences	25,469	-	-	-	-	-	-	1,569	27,038
Total Non-Current Liabilities	124,410	-	-	-	733	-	-	2,321	127,464
TOTAL LIABILITIES	253,920	14,610	1,440	6,932	12,606	7,610	957	7,433	305,508
Net Assets:									
Invested in capital assets, net of related debt	29,579	-	-	-	-	-	-	11,252	40,831
Restricted for:									
Transportation	-	-	-	-	-	31,742	-	-	31,742
Other purposes	-	121,493	118,509	63,858	36,849	-	5,786	15,498	361,993
Unrestricted	(19,404)	-	-	-	-	-	-	-	(19,404)
TOTAL NET ASSETS	$ 10,175	$ 121,493	$ 118,509	$ 63,858	$ 36,849	$ 31,742	$ 5,786	$ 26,750	$ 415,162
TOTAL LIABILITIES AND NET ASSETS	$ 264,095	$ 136,103	$ 119,949	$ 70,790	$ 49,455	$ 39,352	$ 6,743	$ 34,183	$ 720,670

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS-NONMAJOR PROPRIETARY FUNDS

Enterprise Funds *For the Fiscal Year Ended June 30, 2003*

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	State Stores (June 24, 2003)	Small Business First	Volunteer Companies Loan	Machinery and Equipment Loan	Coal and Clay Mine Sub Insurance	PA Infrastructure Bank	Minority Business Development	Other Funds	Total
OPERATING REVENUES:									
Sales and services	$ 1,025,876	$ -	$ 4	$ 6	$ 4,725	$ 170	$ 2	$ 778	$ 1,031,561
Investment income	-	1,711	(62)	984	1,122	546	112	50	4,463
Interest on loans	-	3,631	2,243	1,452	-	795	175	-	8,296
Other	(63)	8	-	56	-	-	5	1,009	1,015
TOTAL OPERATING REVENUES	1,025,813	5,350	2,185	2,498	5,847	1,511	294	1,837	1,045,335
OPERATING EXPENSES:									
Cost of sales and services	951,322	1,448	7	252	2,413	105	(26)	2,310	957,831
Interest expense	-	-	(73)	-	-	-	-	-	(73)
Depreciation	3,152	-	-	-	-	-	-	1,467	4,619
Provision for uncollectible accounts	203	3,240	200	1,290	-	-	-	(18)	4,915
TOTAL OPERATING EXPENSES	954,677	4,688	134	1,542	2,413	105	(26)	3,759	967,292
OPERATING INCOME (LOSS)	71,136	662	2,051	956	3,434	1,406	320	(1,922)	78,043
NONOPERATING REVENUES (EXPENSES):									
Investment income	3,739	-	-	-	-	-	-	331	4,070
Other revenues	-	-	-	-	-	-	-	7,693	7,693
Other expenses	(86)	-	-	-	(48)	-	-	-	(134)
NONOPERATING REVENUES (EXPENSES), NET	3,653	-	-	-	(48)	-	-	8,024	11,629
INCOME BEFORE TRANSFERS	74,789	662	2,051	956	3,386	1,406	320	6,102	89,672
TRANSFERS:									
Transfers out	(156,476)	-	-	-	(330)	-	-	(1)	(156,807)
TOTAL TRANSFERS	(156,476)	-	-	-	(330)	-	-	(1)	(156,807)
CHANGE IN NET ASSETS	(81,687)	662	2,051	956	3,056	1,406	320	6,101	(67,135)
TOTAL NET ASSETS-JULY 1, 2002	91,862	120,831	116,458	62,902	33,793	30,336	5,466	20,649	482,297
TOTAL NET ASSETS-JUNE 30, 2003	$ 10,175	$ 121,493	$ 118,509	$ 63,858	$ 36,849	$ 31,742	$ 5,786	$ 26,750	$ 415,162

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	State Stores (June 24, 2003)	Small Business First	Volunteer Companies Loan	Machinery and Equipment Loan	Coal and Clay Mine Insurance	PA Infrastructure Bank	Minority Business Development	Other Funds	Total
CASH FLOWS FROM OPERATING ACTIVITIES:									
Receipts from customers	$ 1,025,137	$ -	$ -	$ -	$ 4,966	$ -	$ -	$ 8,230	$ 1,038,334
Receipts from borrowers	-	1,378	(502)	5,739	-	303	216	321	7,455
Payments to claimants	-	-	-	-	(2,273)	-	-	-	(2,273)
Payments to borrowers	-	1,729	69	-	-	2,611	-	-	4,409
Payments to suppliers	(969,845)	-	-	(256)	-	-	(23)	(762)	(970,887)
Other receipts (payments)	(63)	8	-	55	-	-	5	948	953
NET CASH PROVIDED BY OPERATING ACTIVITIES	55,229	3,115	(433)	5,538	2,693	2,914	198	8,737	77,991
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:									
Transfers out	(156,478)	-	-	-	(330)	-	-	-	(156,808)
Net repayments under advances from other funds	85,000	(3,000)	-	-	-	-	-		82,000
NET CASH USED FOR NON-CAPITAL FINANCING ACTIVITIES	(71,478)	(3,000)	-	-	(330)	-	-	-	(74,808)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:									
Acquisition and construction of capital assets	(9,524)	-	-	-	-	-	-	(7,071)	(16,595)
Loss on disposition of capital assets	86	-	-	-	50	-	-	-	136
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES:	(9,438)	-	-	-	50	-	-	(7,071)	(16,459)
CASH FLOWS FROM INVESTING ACTIVITIES:									
Purchase of investments	(784,735)	(27,874)	(14,537)	(20,218)	(14,511)	(6,147)	(2,057)	(29,267)	(899,346)
Sales and maturities of investments	799,848	15,626	13,454	7,104	2,157	2,801	822	23,944	865,756
Investment income	3,739	1,347	136	760	875	432	79	338	7,706
Change in securities lending obligations	8,146	11,305	1,364	6,857	9,066	-	956	3,396	41,090
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	26,998	404	417	(5,497)	(2,413)	(2,914)	(200)	(1,589)	15,206
NET INCREASE (DECREASE) IN CASH	1,311	519	(16)	41	-	-	(2)	77	1,930
CASH AT JULY 1, 2002	13,329	161	148	134	-	-	2	106	13,880
CASH AT JUNE 30, 2003	$ 14,640	$ 680	$ 132	$ 175	$ -	$ -	$ -	$ 183	$ 15,810
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES									
Operating income (loss)	$ 71,136	$ 661	$ 2,049	$ 956	$ 3,434	$ 1,406	$ 320	$ (1,923)	$ 78,039
Depreciation and amortization	3,152	-	-	-	-	-	-	1,468	4,620
Provision for uncollectible accounts	203	3,240	200	1,290	-	-	-	(18)	4,915
Non-operating revenues	(86)	-	-	-	(49)	-	-	7,693	7,558
Reclassification of investment income	-	(1,711)	63	(984)	(1,122)	(546)	(112)	(50)	(4,462)
Change in assets and liabilities:									
Accounts receivable	(739)	(2,108)	(2,749)	4,281	-	(661)	62	1	(1,913)
Inventory	(22,075)	-	-	-	-	-	-	64	(22,011)
Due from other funds	(46)	-	-	-	(22)	-	-	(23)	(91)
Due from component units	-	-	-	-	-	-	-	57	57
Due from other governments	-	-	-	69	-	-	-	(5)	64
Other current assets	(825)	3,174	-	-	(182)	-	(49)		2,118
Accounts payable and accrued liabilities	(3,238)	-	-	-	-	-	-	502	(2,736)
Due to other funds	634	4	2	-	-	2,715	-	138	3,493
Due to component units	102	-	-	-	-	-	-	-	102
Due to other governments	-	-	-	-	(1)	-	(23)	(117)	(141)
Deferred revenue	-	(145)	-	-	263	-	-	-	118
Insurance loss liability	-	-	-	-	733	-	-	-	733
Other liabilities	7,011	-	2	(74)	(361)	-	-	950	7,528
Total Adjustments	(15,907)	2,454	(2,482)	4,582	(741)	1,508	(122)	10,660	(48)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$ 55,229	$ 3,115	$ (433)	$ 5,538	$ 2,693	$ 2,914	$ 198	$ 8,737	$ 77,991
Increase (decrease) in fair value of investments during the fiscal year	$ 69	$ (1,248)	$ (199)	$ 225	$ 247	$ 114	$ 33	$ 43	$ (716)

There were no other material investing, capital or financing activities that did not result in cash receipts or cash payments during the fiscal year.

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Internal Service Funds

Pocono Raceway

Long Pond

INTERNAL SERVICE FUNDS
DESCRIPTION

Internal service funds account for the financing of goods or services provided by one department or agency to other departments or agencies of the Commonwealth, or to other governmental units, on a cost-reimbursement basis.

Purchasing Fund — to account for the purchase of materials, supplies, motor vehicles and other equipment by the Department of General Services for the sale or lease to other Commonwealth departments, boards or commissions. Revenue is derived from reimbursements from Commonwealth agencies who use Fund services or products.

Manufacturing Fund — to account for the manufacture and sale of goods and services by inmates in the institutions of the Department of Corrections, government agencies and government-aided organizations.

There are a total of two individual internal service funds.

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Purchasing Fund	Manufacturing Fund	Total
ASSETS			
Current assets:			
Cash	$ 1,442	$ 532	$ 1,974
Temporary investments	26,958	31,985	58,943
Receivables:			
Accounts	5	-	5
Other	-	652	652
Due from other funds	13,559	8,053	21,612
Due from pension trust funds	18	-	18
Due from component units	1,425	7	1,432
Due from political subdivisions	81	177	258
Inventory	1,193	10,042	11,235
Total current assets	44,681	51,448	96,129
Noncurrent assets:			
Non-depreciable capital assets—Note E:			
Land	-	6	6
Depreciable capital assets—Note E:			
Land improvements	-	291	291
Buildings and building improvements	-	3,996	3,996
Machinery and equipment	72,620	22,415	95,035
Less: accumulated depreciation	(35,227)	(15,319)	(50,546)
Net depreciable capital assets	37,393	11,383	48,776
Other assets	-	97	97
Total noncurrent assets	37,393	11,486	48,879
TOTAL ASSETS	82,074	62,934	145,008
LIABILITIES			
Current Liabilities:			
Accounts payable and accrued liabilities	24,842	4,653	29,495
Securities lending obligations	4,946	5,868	10,814
Due to other funds	329	54	383
Due to component units	1	-	1
Due to other governments	8	41	49
Deferred revenue	-	8	8
Other liabilities	14,300	-	14,300
Total Current Liabilities	44,426	10,624	55,050
TOTAL LIABILITIES	44,426	10,624	55,050
NET ASSETS:			
Invested in capital assets, net of related debt	37,392	11,389	48,781
Restricted for:			
Other purposes	256	40,921	41,177
TOTAL NET ASSETS	$ 37,648	$ 52,310	$ 89,958
TOTAL LIABILITIES AND NET ASSETS	$ 82,074	$ 62,934	$ 145,008

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS-PROPRIETARY FUNDS

Internal Service Funds

For the Fiscal Year Ended June 30, 2003

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Purchasing Fund	Manufacturing Fund	Total
OPERATING REVENUES:			
Sales and services	$ 180,262	$ 35,761	$ 216,023
TOTAL OPERATING REVENUES	180,262	35,761	216,023
OPERATING EXPENSES:			
Cost of sales and services	173,723	29,981	203,704
Depreciation	11,000	1,196	12,196
Provision for uncollectible accounts	-	221	221
TOTAL OPERATING EXPENSES	184,723	31,398	216,121
OPERATING INCOME (LOSS)	(4,461)	4,363	(98)
NONOPERATING REVENUES (EXPENSES):			
Investment income	150	690	840
Other revenues	1	-	1
Other expenses	(3,561)	-	(3,561)
NONOPERATING REVENUES (EXPENSES), NET	(3,410)	690	(2,720)
INCOME (LOSS) BEFORE OPERATING TRANSFERS	(7,871)	5,053	(2,818)
CHANGE IN NET ASSETS	(7,871)	5,053	(2,818)
TOTAL NET ASSETS, JULY 1, 2002 (restated)	45,519	47,257	92,776
TOTAL NET ASSETS, JUNE 30, 2003	$ 37,648	$ 52,310	$ 89,958

COMBINING STATEMENT OF CASH FLOWS-PROPRIETARY FUNDS

Internal Service Funds

For the Fiscal Year Ended June 30, 2003

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Purchasing	Manufacturing	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	$ 197,057	$ 34,125	$ 231,182
Payments to suppliers	(170,437)	(31,794)	(202,231)
NET CASH PROVIDED BY OPERATING ACTIVITIES	26,620	2,331	28,951
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	$ (14,259)	$ (1,611)	$ (15,870)
Loss on disposition of capital assets	3,560	-	3,560
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(10,699)	(1,611)	(12,310)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investments	(242,943)	(28,993)	(271,936)
Sales and maturities of investments	222,987	22,079	245,066
Investment income	440	621	1,061
Change in securities lending obligations	4,946	5,868	10,814
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	(14,570)	(425)	(14,995)
NET INCREASE (DECREASE) IN CASH	1,351	295	1,646
CASH AT JULY 1, 2002	91	237	328
CASH AT JUNE 30, 2003	$ 1,442	$ 532	$ 1,974
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	$ (4,460)	$ 4,362	$ (98)
Depreciation and amortization	11,000	1,196	12,196
Provision for uncollectible accounts	-	221	221
Non-operating revenues (expenses)	(3,560)		(3,560)
Change in assets and liabilities:			
Accounts receivable	(5)	(652)	(657)
Inventory	(440)	852	412
Due from other funds	18,452	(1,797)	16,655
Due from component units	(1,138)	44	(1,094)
Due from political subdivisions	(75)	-	(75)
Other current assets	-	(90)	(90)
Accounts payable and accrued liabilities	6,638	(1,620)	5,018
Due to other funds	205	(197)	8
Due to other governments	2	5	7
Due to component units	1	-	1
Due to political subdivisions	-	7	7
Total Adjustments	31,080	(2,031)	29,049
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 26,620	$ 2,331	$ 28,951
Increase (decrease) in fair value of investments during the fiscal year	$ (291)	$ 69	$ (222)

There were no other material investing, capital or financing activities that did not result in cash receipts or cash payments during the fiscal year.

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Pension (and Other Employee Benefit) Trust Funds

Mazza Winery

Erie County

PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS DESCRIPTION

Pension (and other employee benefit trust) funds account for assets that are required to be held in trust for the members and beneficiaries of defined benefit pension plans and other postemployment benefit plan and are held by the Commonwealth in a trustee capacity.

PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS

State Employees' Retirement System — is a blended component unit and accounts for the payment of retirement, disability and death benefits to members of the State Employees' Retirement System and their beneficiaries.

Deferred Compensation Fund — is a pension trust fund that collects and administers amounts contributed by Commonwealth employees who are deferring a portion of their income until future years, in accordance with Internal Revenue Code Section 457.

Public School Employees' Retirement System — is a discretely presented component unit that administers and provides pension benefits to public school employees in Pennsylvania.

COMBINING STATEMENT OF FIDUCIARY NET ASSETS
Pension (and Other Employee Benefit) Trust Funds *June 30, 2003*

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust			
	State Employees' Retirement System (Blended Component Unit) (December 31, 2002)	Deferred Compensation Fund (December 31, 2002)	Public School Employees' Retirement System (Discretely Presented Component Unit)	Total
ASSETS				
Cash—Note D	$ -	$ 5,866	$ -	$ 5,866
Temporary investments—Note D	1,973,891	117,366	5,295,511	7,386,768
Long-term investments—Note D	20,604,494	916,724	41,812,183	63,333,401
Receivables, net:				
Accrued interest	93,821	-	152,636	246,457
Pension contributions	-	7,240	228,373	235,613
Investment proceeds	371,654	100	899,329	1,271,083
Other	-	4	-	4
Due from other funds—Note H	1,205	-	2,075	3,280
Due from political subdivisions	361	-	-	361
Due from other governments	3,851	-	20	3,871
Capital assets—Note E	-	-	11,349	11,349
Less: accumulated depreciation	-	-	(8,921)	(8,921)
Net depreciable capital assets	-	-	2,428	2,428
TOTAL ASSETS	23,049,277	1,047,300	48,392,555	72,489,132
LIABILITIES				
Liabilities:				
Accounts payable and accrued liabilities	39,974	1,215	36,899	78,088
Investment purchases payable	894,366	-	2,290,714	3,185,080
Securities lending obligations	1,235,378	83,860	3,387,690	4,706,928
Due to other funds—Note H	-	-	1,091	1,091
Other liabilities	-	106	188,243	188,349
TOTAL LIABILITIES	2,169,718	85,181	5,904,637	8,159,536
NET ASSETS:				
Held in trust for:				
Pension and other employee benefits	20,879,559	-	42,316,379	63,195,938
Healthcare benefits	-	-	171,539	171,539
Employee salary deferrals	-	962,119	-	962,119
TOTAL NET ASSETS	$ 20,879,559	$ 962,119	$ 42,487,918	$ 64,329,596

- The notes to the financial statements are an integral part of this statement. -

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Pension (and Other Employee Benefit) Trust Funds

For the Fiscal Year Ended June 30, 2003

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust			
	State Employees' Retirement System (Blended Component Unit) (December 31, 2002)	Deferred Compensation Fund (December 31, 2002)	Public School Employees' Retirement System (Discretely Presented Component Unit)	Total
ADDITIONS:				
Pension contributions:				
Employer	$ 50,831	$ -	$ 116,456	$ 167,287
Employee	304,233	122,593	897,307	1,324,133
Total contributions	355,064	122,593	1,013,763	1,491,420
Investment income:				
Net depreciation in fair value of investments	(3,225,678)	(108,872)	(172,506)	(3,507,056)
Interest income	303,421	17,923	686,039	1,007,383
Dividend income	112,015	-	480,735	592,750
Rental and other income	223,754	-	192,223	415,977
Total investment activity income	(2,586,488)	(90,949)	1,186,491	(1,490,946)
Less: investment expenses				
Investment activity expense	(153,211)	(1,062)	(179,056)	(333,329)
Net investment earnings	(2,739,699)	(92,011)	1,007,435	(1,824,275)
Securities lending activities:				
Income	26,696	180	43,870	70,746
Expenses	(18,292)	(180)	(28,838)	(47,310)
Total securities lending income	8,404	-	15,032	23,436
Total net investment income	(2,731,295)	(92,011)	1,022,467	(1,800,839)
TOTAL ADDITIONS	(2,376,231)	30,582	2,036,230	(309,419)
DEDUCTIONS:				
Benefit payments	1,426,257	31,228	3,076,625	4,534,110
Refunds of contributions	4,160	-	13,943	18,103
Transfers to other plans	-	27,543	-	27,543
Administrative expenses	19,856	188	42,278	62,322
Other expenses	-	2,035	12,116	14,151
TOTAL DEDUCTIONS:	1,450,273	60,994	3,144,962	4,656,229
CHANGE IN PLAN NET ASSETS HELD IN TRUST FOR:				
Pension and other employee benefits	(3,826,504)	(30,412)	(1,156,870)	(5,013,786)
Healthcare benefits	-	-	48,138	48,138
Net assets, July 1, 2002	24,706,063	992,531	43,596,650	69,295,244
Net assets, June 30, 2003	$ 20,879,559	$ 962,119	$ 42,487,918	$ 64,329,596

- The notes to the financial statements are an integral part of this statement. -

Agency Funds

Balloonfest

Hershey

AGENCY FUNDS
DESCRIPTION

Agency funds account for assets held by the Commonwealth as an agent for individuals, private organizations, or other governmental units.

AGENCY FUNDS

Statutory Liquidator Fund — to convert the assets of insolvent insurance companies to cash for remittance to creditors, policyholders and stockholders.

Medical Care Availability and Reduction of Error Fund---to collect surcharges from health care providers and remit payments for judgments, awards, or settlements in medical malpractice claims which exceed basic limits of coverage provided in professional liability insurance policies. Succeeded the Medical Professional Liability Catastrophe Loss Fund effective October 1, 2002.

Medical Professional Liability Catastrophe Loss Fund — to collect surcharges from health care providers and remit payments for judgments, awards, or settlements in medical malpractice claims which exceed basic limits of coverage provided in professional liability insurance policies. Replaced by the successor Medical Care Availability and Reduction of Error Fund effective October 1, 2002.

Underground Storage Tank Indemnification Fund — to collect assessments and remit claim payments to owners and operators of underground storage tanks who incur a liability for taking corrective action, for bodily injury or for property damage caused by a release from underground storage tanks.

Municipal Pension Aid Fund — to collect foreign (out-of-state) casualty insurance company tax assessments, which are remitted to municipalities to help defray municipal police and fire pension fund costs.

Fire Insurance Tax Fund — to collect a two-percent premium tax received from foreign (out-of-state) fire insurance companies conducting business in the Commonwealth, which are remitted to local governments. The municipalities must pay these monies to the relief, pension or retirement fund of their recognized fire fighting organization.

Agency Custodial Accounts — to account for the assets of patients, residents, inmates and other non-Commonwealth funds for which the Commonwealth is the account custodian.

Other — to collect and administer funds from various sources for distribution to other state and local governments or the Federal Government. This other category is an aggregation of six individual agency funds.

There are a total of thirteen individual agency funds.

COMBINING STATEMENT OF FIDUCIARY NET ASSETS
Agency Funds

June 30, 2003

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Primary Government Agency Funds								Discretely Presented Component Units		
	Statutory Liquidator Fund	Medical Care Availability & Reduction of Error Fund	Medical Prof. Liability Catastrophe Loss Fund	Underground Storage Tank Indemnification Fund	Municipal Pension Aid Fund	Fire Insurance Fund	Agency Custodian Accounts	Other Funds	PA Life and Health Insurance Guaranty Association (December 31, 2002)	PA Property and Casualty Insurance Guaranty Assoc. Guaranty (December 31, 2002)	Total Agency Funds
ASSETS											
Cash	$ -	$ -	$ -	$ 280	$ -	$ -	$ 6,858	$ 93	$ 1,760	$ 241	$ 9,232
Cash with fiscal agents	66,017	-	-	-	-	-	-	-	-	-	66,017
Temporary investments	660,157	32,479	789	38,702	195,557	85,223	13,566	45,711	248,514	99,491	1,420,189
Long-term investments	914,289	-	-	89,656	-	-	-	-	-	38,181	1,042,126
Receivables, net:											
Taxes	-	-	-	-	-	-	-	23,911	-	-	23,911
Accounts	429,842	-	-	-	-	-	12,248	2,809	-	1,745	446,644
Accrued interest	223	-	-	595	-	-	1	-	-	-	819
Loans	-	-	-	4,909	-	-	-	-	-	-	4,909
Other	-	-	-	-	-	-	-	-	-	139,595	139,595
Advances to other funds	-	-	-	100,000	-	-	-	-	-	-	100,000
Other assets	582,820	-	-	-	-	-	4,362	-	-	304	587,486
TOTAL ASSETS	$ 2,653,348	$ 32,479	$ 789	$ 234,142	$ 195,557	$ 85,223	$ 37,035	$ 72,524	$ 250,274	$ 279,557	$ 3,840,928
LIABILITIES											
Accounts payable and accrued liabilities	-	2,747	1	13,713	43	-	6,128	166	-	-	22,798
Securities lending obligations	17,762	5,959	145	24,280	35,878	13,041	-	7,085	-	-	104,150
Due to political subdivisions	-	-	-	257	159,636	72,182	-	62,882	-	-	294,957
Due to other governments	-	14	-	3	-	-	-	-	-	-	17
Deferred revenue	-	-	-	-	-	-	-	-	-	1,149	1,149
Other liabilities	2,635,586	23,759	643	195,889	-	-	30,907	2,391	250,274	278,408	3,417,857
TOTAL LIABILITIES	$ 2,653,348	$ 32,479	$ 789	$ 234,142	$ 195,557	$ 85,223	$ 37,035	$ 72,524	$ 250,274	$ 279,557	$ 3,840,928

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Agency Funds-Primary Government

For the Fiscal Year Ended June 30, 2003

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Balance July 1, 2002	Additions	Deductions	Balance June 30, 2003
STATUTORY LIQUIDATOR FUND				
ASSETS				
Cash with fiscal agents	$ 562,668	$ 97,985	$ 594,636	$ 66,017
Temporary investments	277,440	693,264	310,547	660,157
Long-term investments	724,056	895,482	705,249	914,289
Receivables, net:				
Accounts	131,988	297,854	-	429,842
Accrued interest	563	-	340	223
Other assets	471,210	111,610	-	582,820
TOTAL ASSETS	$ 2,167,925	$ 2,096,195	$ 1,610,772	$ 2,653,348
LIABILITIES				
Securities lending obligations	$ -	$ 17,762	$ -	$ 17,762
Other liabilities	$ 2,167,925	$ 1,565,524	$ 1,097,863	$ 2,635,586
TOTAL LIABILITIES	$ 2,167,925	$ 1,583,286	$ 1,097,863	$ 2,653,348
UNDERGROUND STORAGE TANK INDEMNIFICATION FUND				
ASSETS				
Cash	$ 13,630	$ 9,000,487	$ 9,013,837	$ 280
Temporary investments	66,246	6,361,454	6,388,998	38,702
Long-term investments	217,208	471,851	599,403	89,656
Receivables, net:				
Accrued interest	1,697	595	1,697	595
Loans	6,015	6,015	7,121	4,909
Advances to other funds	-	100,000	-	100,000
TOTAL ASSETS	$ 304,796	$ 15,940,402	$ 16,011,056	$ 234,142
LIABILITIES				
Accounts payable and accrued liabilities	$ 13,752	$ 143,790	$ 143,829	$ 13,713
Securities lending obligations	40,272	24,280	40,272	24,280
Due to other funds	-	49	49	-
Due to component units	-	3	3	-
Due to political subdivisions	204	1,362	1,309	257
Due to other governments	3	3	3	3
Other liabilities	250,565	212,802	267,478	195,889
TOTAL LIABILITIES	$ 304,796	$ 382,289	$ 452,943	$ 234,142
MEDICAL CARE AVAILABILITY AND REDUCTION OF ERROR FUND				
ASSETS				
Cash	$ -	$ 3,246,405	$ 3,246,405	$ -
Temporary investments	-	1,519,215	1,486,736	32,479
Long-term investments	-	971,932	971,932	-
TOTAL ASSETS	$ -	$ 5,737,552	$ 5,705,073	$ 32,479
LIABILITIES				
Accounts payable and accrued liabilities	$ -	$ 1,082,149	$ 1,079,402	$ 2,747
Securities lending obligations	-	5,959	-	5,959
Due to other funds	-	39	39	-
Due to political subdivisions	-	12	12	-
Due to other governments	-	14	-	14
Advances from other funds	-	7,000	7,000	-
Other liabilities	-	23,759	-	23,759
TOTAL LIABILITIES	$ -	$ 1,118,932	$ 1,086,453	$ 32,479
MEDICAL PROFESSIONAL LIABILITY CATASTROPHE LOSS FUND				
ASSETS				
Cash	$ 2,602	$ 1,265,199	$ 1,267,801	$ -
Temporary investments	127,683	733,058	859,952	789
Receivables, net:				
Accounts	29,062	-	29,062	-
TOTAL ASSETS	$ 159,347	$ 1,998,257	$ 2,156,815	$ 789
LIABILITIES				
Accounts payable and accrued liabilities	$ 1,606	$ 6,475	$ 8,080	$ 1
Securities lending obligations	-	145	-	145
Due to political subdivisions	-	8	8	-
Due to other governments	9	-	9	-
Other liabilities	157,732	248,887	405,976	643
TOTAL LIABILITIES	$ 159,347	$ 255,515	$ 414,073	$ 789

(continued)

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Balance July 1, 2002	Additions	Deductions	Balance June 30, 2003
MUNICIPAL PENSION AID FUND				
ASSETS				
Cash	$ -	$ 2,858,592	$ 2,858,592	$ -
Temporary investments	146,173	564,929	515,545	195,557
Receivables, net:				
Accounts	195	-	195	-
TOTAL ASSETS	$ 146,368	$ 3,423,521	$ 3,374,332	$ 195,557
LIABILITIES				
Accounts payable and accrued liabilities	$ -	$ 43	$ -	$ 43
Securities lending obligations	-	35,878	-	35,878
Due to political subdivisions	146,368	159,700	146,432	159,636
TOTAL LIABILITIES	$ 146,368	$ 195,621	$ 146,432	$ 195,557
FIRE INSURANCE TAX FUND				
ASSETS				
Cash	$ -	$ 886,390	$ 886,390	$ -
Temporary investments	63,861	293,219	271,857	85,223
Receivables, net:				
Accrued interest	109	-	109	-
TOTAL ASSETS	$ 63,970	$ 1,179,609	$ 1,158,356	$ 85,223
LIABILITIES				
Accounts payable and accrued liabilities	$ 109	$ -	$ 109	$ -
Securities lending obligations	-	13,041	-	13,041
Due to political subdivisions	63,861	16,862	8,541	72,182
TOTAL LIABILITIES	$ 63,970	$ 29,903	$ 8,650	$ 85,223
AGENCY CUSTODIAL ACCOUNTS				
ASSETS				
Cash	$ 5,407	$ 35,733	$ 34,282	$ 6,858
Temporary investments	14,611	13,718	14,763	13,566
Long-term investments	2	-	2	-
Receivables, net:				
Accounts	10,976	12,248	10,976	12,248
Accrued interest	1	1	1	1
Other assets	4,412	108	158	4,362
TOTAL ASSETS	$ 35,409	$ 61,808	$ 60,182	$ 37,035
LIABILITIES				
Accounts payable and accrued liabilities	$ 5,787	$ 6,128	$ 5,787	$ 6,128
Other liabilities	29,622	30,647	29,362	30,907
TOTAL LIABILITIES	$ 35,409	$ 36,775	$ 35,149	$ 37,035

(continued)

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Balance July 1, 2002	Additions	Deductions	Balance June 30, 2003
OTHER FUNDS				
ASSETS				
Cash	$ 1,887	$ 6,659,378	$ 6,661,172	$ 93
Temporary investments	39,468	1,709,523	1,703,280	45,711
Receivables, net:				
Taxes	22,679	23,911	22,679	23,911
Accounts	4,988	2,809	4,988	2,809
Due from other funds	-	2,804	2,804	-
TOTAL ASSETS	$ 69,022	$ 8,398,425	$ 8,394,923	$ 72,524
LIABILITIES				
Accounts payable	$ 429	$ 1,967,368	$ 1,967,631	$ 166
Securities lending obligations	-	7,085	-	7,085
Due to other funds	-	181	181	-
Due to political subdivisions	64,561	56,832	58,511	62,882
Other liabilities	4,032	2,391	4,032	2,391
TOTAL LIABILITIES	$ 69,022	$ 2,033,857	$ 2,030,355	$ 72,524
TOTAL — PRIMARY GOVERNMENT AGENCY FUNDS				
ASSETS				
Cash	$ 23,526	$ 23,952,184	$ 23,968,479	$ 7,231
Cash with fiscal agents	562,668	97,985	594,636	66,017
Temporary investments	735,482	11,888,380	11,551,678	1,072,184
Long-term investments	941,266	2,339,265	2,276,586	1,003,945
Receivables, net:				
Taxes	22,679	23,911	22,679	23,911
Accounts	177,209	312,911	45,221	444,899
Accrued interest	2,370	596	2,147	819
Loans	6,015	6,015	7,121	4,909
Due from other funds	-	2,804	2,804	-
Advances to other funds	-	100,000	-	100,000
Other assets	475,622	111,718	158	587,182
TOTAL ASSETS	$ 2,946,837	$ 38,835,769	$ 38,471,509	$ 3,311,097
LIABILITIES				
Accounts payable and accrued liabilities	$ 21,683	$ 3,205,953	$ 3,204,838	$ 22,798
Securities lending obligations	40,272	104,150	40,272	104,150
Due to other funds	-	269	269	-
Due to component units	-	3	3	-
Due to political subdivisions	274,994	234,776	214,813	294,957
Due to other governments	12	17	12	17
Advances from other funds	-	7,000	7,000	-
Other liabilities	2,609,876	2,084,010	1,804,711	2,889,175
TOTAL LIABILITIES	$ 2,946,837	$ 5,636,178	$ 5,271,918	$ 3,311,097

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Discretely Presented Component Units *For Their Fiscal Years Ended December 31, 2002*

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Balance December 31, 2001	Additions	Deductions	Balance December 31, 2002
PENNSYLVANIA LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION				
ASSETS				
Cash	$ 4,836	$ 17,631	$ 20,707	$ 1,760
Temporary investments	241,152	7,362	-	248,514
TOTAL ASSETS	$ 245,988	$ 24,993	$ 20,707	$ 250,274
LIABILITIES				
Other liabilities	245,988	4,286	-	250,274
TOTAL LIABILITIES	$ 245,988	$ 4,286	$ -	$ 250,274
PENNSYLVANIA PROPERTY AND CASUALTY INSURANCE GUARANTY ASSOCIATION				
ASSETS				
Cash	$ 3,919	$ 68,923	$ 72,601	$ 241
Temporary investments	77,599	21,892	-	99,491
Long-term investments	19,421	18,760	-	38,181
Receivables, net:				
Accounts	770	93,970	92,995	1,745
Other	150,695	82,870	93,970	139,595
Other assets	266	83	45	304
TOTAL ASSETS	$ 252,670	$ 286,498	$ 259,611	$ 279,557
LIABILITIES				
Deferred revenues	941	208	-	1,149
Other liabilities	251,729	202,994	176,315	278,408
TOTAL LIABILITIES	$ 252,670	$ 203,202	$ 176,315	$ 279,557
TOTAL				
ASSETS				
Cash	$ 8,755	$ 86,554	$ 93,308	$ 2,001
Temporary investments	318,751	29,254	-	348,005
Long-term investments	19,421	18,760	-	38,181
Receivables, net:				
Accounts	770	93,970	92,995	1,745
Other	150,695	82,870	93,970	139,595
Other assets	266	83	45	304
TOTAL ASSETS	$ 498,658	$ 311,491	$ 280,318	$ 529,831
LIABILITIES				
Deferred revenues	941	208	-	1,149
Other liabilities	497,717	207,280	176,315	528,682
TOTAL LIABILITIES	$ 498,658	$ 207,488	$ 176,315	$ 529,831

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Statistical Section

Old Bedford Village

Bedford

REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUND TYPES [1]

TABLE 1

For the Last Ten Fiscal Years Ended June 30

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	1994[2]	1995[2]	1996[2]	1997[2]	1998[2]	1999[2]	2000[2]	2001[2]	(Restated) 2002[2]	2003[2]
REVENUES BY SOURCE										
Taxes	$ 16,094,540	$ 16,990,198	$ 17,220,048	$ 18,168,581	$ 19,043,735	$ 20,105,276	$ 20,956,743	$ 22,621,745	$20,636,762	$ 21,469,170
Licenses and fees	740,723	773,463	796,150	804,429	1,004,050	1,019,256	1,143,789	1,237,179	1,246,232	1,350,016
Intergovernmental	7,822,596	7,959,997	9,517,277	9,499,083	9,669,407	10,563,455	11,093,738	12,154,600	13,259,463	14,575,716
Charges for sales and services	847,520	894,852	1,311,375	1,516,527	1,697,933	2,057,375	2,489,196	2,388,536	2,535,775	2,019,842
Investment income	79,329	145,124	152,724	174,604	225,805	258,525	396,499	465,178	29,615	249,791
Lottery receipts	1,574,949	1,595,726	1,699,277	1,722,558	1,684,015	1,659,305	1,695,371	1,788,333		
Other [2]	171,555	167,452	228,931	187,592	178,042	214,254	656,086	647,322	755,226	837,918
TOTAL REVENUES	$ 27,331,212	$ 28,526,812	$ 30,925,782	$ 32,073,374	$ 33,502,987	$ 35,877,446	$ 38,431,422	$ 41,302,893	$38,463,073	$ 40,502,453
EXPENDITURES BY FUNCTION										
Direction and Supportive services	$ 2,152,254	$ 2,313,118	$ 2,630,517	$ 2,468,746	$ 2,586,529	$ 2,722,917	$ 2,817,426	$ 3,329,980	968,563	914,794
Protection of persons and property	1,772,639	1,927,228	2,345,462	2,462,026	2,613,021	2,785,269	2,933,612	3,072,205	3,876,449	3,882,843
Health and human services	11,810,077	12,249,729	13,651,317	13,907,167	14,341,539	15,320,410	16,486,542	19,204,847	18,990,802	20,510,849
Public education	6,784,190	7,006,744	7,417,504	7,397,274	7,714,443	7,842,732	8,283,144	8,677,284	8,814,273	10,198,076
Recreation and cultural enrichment	525,401	571,502	348,639	369,467	396,087	436,601	510,732	568,757	480,245	471,920
Economic development	272,212	338,377	285,092	300,310	338,984	469,005	539,068	745,143	1,245,292	1,507,584
Transportation	2,695,546	2,773,086	2,832,031	2,912,583	3,243,334	3,654,269	3,679,188	4,065,124	4,003,291	3,935,785
Capital outlay	210,083	264,464	319,195	253,758	360,238	582,863	586,801	655,248	694,219	407,080
Debt service:										
Principal retirement	482,344	516,705	447,790	437,880	435,090	443,675	479,350	477,001	479,395	998,396
Interest and fiscal charges	291,731	301,480	289,138	287,866	263,356	262,669	277,044	281,590	278,428	313,681
TOTAL EXPENDITURES	$ 26,996,477	$ 28,262,433	$ 30,566,685	$ 30,797,077	$ 32,292,621	$ 34,520,410	$ 36,592,907	$ 41,077,179	$39,830,957	$ 43,141,008

[1] Included General, Special Revenue, Debt Service, Capital Projects Funds and Discretely Presented Governmental Fund Component Units, through June 30, 1993.

[2] Includes primary government only.

NET BONDED DEBT PER CAPITA — TABLE 2

For the Last Ten Fiscal Years

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

At Fiscal Year Ended June 30	Net Bonded Debt	Population	Debt Per Capita
1993	$ 5,040,938	12,026	$ 419
1994	5,100,012	12,040	423
1995	5,040,662	12,044	418
1996	5,061,530	12,038	420
1997	4,841,729	12,015	403
1998	4,841,324	12,002	403
1999	5,253,614	11,994	438
2000	5,366,621	12,281	437
2001	5,545,081	12,287	451
2002	6,800,841	12,335	551

SOURCE: Population Information -- U.S. Department of Commerce, Bureau of Census

RATIO OF ANNUAL DEBT SERVICE REQUIREMENTS FOR GENERAL OBLIGATION BONDED DEBT TO TOTAL GENERAL FUND EXPENDITURES — TABLE 3

For the Last Ten Fiscal Years

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

For The Fiscal Year Ended June 30	Debt Service Requirements Funded by General Fund	Budgetary Basis General Fund Expenditures[1]	%
1994	$ 512,094	$ 21,060,058	2.43
1995	525,889	22,467,672	2.34
1996	551,133	23,480,336	2.35
1997	649,759	23,384,414	2.78
1998	624,642	24,891,340	2.51
1999	761,572	26,624,901	2.86
2000	627,817	28,755,784	2.18
2001	382,924	29,717,425	1.29
2002	551,189	31,666,564	1.74
2003	608,323	34,350,113	1.77

[1] Excludes encumbrances included in "Total Expenditures" in the Budgetary Comparison Schedules

COMPUTATION OF LEGAL DEBT MARGIN

TABLE 4

As of August 31, 2003

COMMONWEALTH OF PENNSYLVANIA

Average annual tax revenues deposited in the previous five fiscal years	$ 24,285,747,191
Constitutional factor	x 1.75
Constitutional debt limit for debt incurred without the approval of the electors	42,500,057,585
Less outstanding net debt (non-electorate approved)	6,021,247,141
Legal debt margin	$ 36,478,810,444

The formula for the legal debt limit is contained in Article VIII, Section 7(a) of the Pennsylvania Constitution, which provides:

No debt shall be incurred by or on behalf of the Commonwealth except by law and in accordance with the provisions of this section.

(1) Debt may be incurred without limit to suppress insurrection, rehabilitate areas affected by man-made or natural disaster, or to implement unissued authority by the electors prior to the adoption of this article.

(2) The Governor, State Treasurer and Auditor General, acting jointly, may (i) issue tax anticipation notes having a maturity within the fiscal year of issue and payable exclusively from revenues received in the same fiscal year, and (ii) incur debt for the purpose of refunding other debt, if such refunding debt matures within the term of the original debt.

(3) Debt may be incurred without limit for purposes specifically itemized in the law authorizing such debt, if the question whether the debt shall be incurred has been submitted to the electors and approved by a majority of those voting on the question.

(4) Debt may be incurred without the approval of the electors for capital projects specifically itemized in a capital budget if such debt will not cause the amount of all net debt outstanding to exceed one and three-quarters times the average of the annual tax revenues deposited in the previous five fiscal years as certified by the Auditor General. For the purposes of this subsection, debt outstanding shall not include debt incurred under clauses (1) and (2)(i), or debt incurred under clause (2)(ii) if the original debt would not be so considered, or debt incurred under subsection (3) unless the General Assembly shall so provide in the law authorizing such debt.

The figures above are abstracted from a certification of the Auditor General dated August 29, 2003.

SCHEDULE OF REVENUE BOND COVERAGE

TABLE 5

For the Last Ten Fiscal Years

COMMONWEALTH OF PENNSYLVANIA

Pennsylvania Turnpike Commission [b]

(Expressed in Thousands)

For the Fiscal Year Ended May 31	Gross Revenues	Direct Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			
				Principal	Interest	Total	Coverage
1994	344,617	142,915	201,702	9,405	70,892	80,297	2.51
1995	375,754	146,325	229,429	15,715	72,548	88,263	2.60
1996	389,774	162,150	227,624	23,900	75,644	99,544	2.29
1997	398,897	158,705	240,192	22,845	74,462	97,307	2.47
1998	410,266	165,763	244,503	28,240	72,274	100,514	2.43
1999	441,235	190,179	251,056	29,085	86,483	115,568	2.17
2000	458,728	180,671	278,057	36,775	90,784	127,559	2.18
2001	490,494	212,365	278,129	48,245	106,949	155,194	1.79
2002	530,363	216,077	314,286	274,200	122,209	396,409	0.79
2003	548,576	233,542	315,034	58,475	113,016	171,491	1.84

Pennsylvania Industrial Development Authority [b]

(Expressed in Thousands)

For the Fiscal Year Ended June 30	Gross Revenues	Direct Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			
				Principal	Interest	Total	Coverage
1994	29,802	2,138	27,664	23,085	19,116	42,201	0.66
1995	30,806	2,864	27,942	4,335	20,123	24,458	1.14
1996	30,487	2,898	27,589	10,695	19,747	30,442	0.91
1997	32,963	2,865	30,098	12,955	22,314	35,269	0.85
1998	35,967	2,861	33,106	19,380	22,852	42,232	0.78
1999	30,227	3,187	27,040	20,660	21,845	42,505	0.64
2000	34,581	3,315	31,266	22,585	20,615	43,200	0.72
2001	38,807	3,102	35,705	23,005	19,487	42,492	0.84
2002	31,360	4,236	27,124	23,695	18,830	42,525	0.64
2003	34,559	3,447	31,112	18,815	30,217	49,032	0.63

Pennsylvania Housing Finance Agency [b]

(Expressed in Thousands)

For the Fiscal Year Ended June 30	Gross Revenues	Direct Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			
				Principal	Interest [a]	Total	Coverage
1994	194,025	13,325	180,700	29,426	143,904	173,330	1.05
1995	196,023	16,095	179,928	51,406	139,621	191,027	0.94
1996	208,048	16,979	191,069	40,839	146,452	187,291	1.02
1997	222,736	16,748	205,988	39,463	157,989	197,452	1.04
1998	247,841	17,931	229,910	43,558	172,268	215,826	1.06
1999	237,346	19,544	217,802	54,438	175,337	229,775	0.95
2000	249,336	20,303	229,033	93,240	176,399	269,639	0.85
2001	260,049	24,398	235,651	62,582	174,349	236,931	0.99
2002	231,306	25,701	205,605	75,934	166,224	242,158	0.85
2003	196,179	25,408	170,771	74,092	169,225	243,317	0.70

[a] Excludes interest on notes payable.

[b] Discretely Presented Component Unit.

ANNUAL ESTIMATES OF THE RESIDENT POPULATION
PENNSYLVANIA COMPARED TO THE UNITED STATES

TABLE 6
For the Last Ten Calendar Years

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

Calendar Year	United States	Pennsylvania	%
1993	257,753	12,026	4.66
1994	260,289	12,040	4.63
1995	262,803	12,044	4.58
1996	265,228	12,038	4.54
1997	267,783	12,015	4.49
1998	270,248	12,002	4.44
1999	272,690	11,994	4.40
2000	282,125	12,283	4.35
2001	284,797	12,287	4.31
2002	288,369	12,335	4.28

SOURCE: U.S. Department of Commerce, Bureau of Census

STATE BANKING INSTITUTIONS
DEMAND DEPOSITS AND TIME AND SAVINGS DEPOSITS

TABLE 7
For the Last Ten Calendar Years

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

Calendar Year	Demand Deposits	Time and Savings Deposits
1993	$ 7,620,397	$ 54,334,637
1994	6,952,868	49,674,200
1995	7,124,441	51,766,777
1996	4,233,735	37,254,292
1997	4,764,449	40,036,785
1998	4,581,076	35,885,048
1999	4,469,669	38,497,993
2000	4,680,714	40,344,204
2001	7,203,956	50,123,973
2002	7,371,263	53,839,174

SOURCE: Pennsylvania Department of Banking

RESIDENT EMPLOYMENT, UNEMPLOYMENT AND UNEMPLOYMENT RATE PENNSYLVANIA COMPARED TO THE UNITED STATES

TABLE 8

For the Last Ten Calendar Years

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands Except Percents)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
PENNSYLVANIA										
Civilian labor force	5,889	5,826	5,838	5,903	5,984	5,936	5,969	5,972	6,073	6,290
Employment	5,470	5,465	5,495	5,590	5,673	5,661	5,707	5,722	5,786	5,934
Unemployment	416	360	343	313	311	275	262	250	287	356
Rate %	7.1	6.2	5.9	5.3	5.2	4.6	4.4	4.2	4.7	5.7
UNITED STATES										
Civilian labor force	129,200	131,056	132,304	133,943	136,297	137,674	139,368	146,863	141,815	144,863
Employment	120,260	123,060	124,900	126,708	129,558	131,464	133,488	135,208	135,073	136,485
Unemployment	8,940	7,996	7,404	7,235	6,739	6,210	5,880	5,655	6,742	8,378
Rate %	6.9	6.1	5.6	5.4	4.9	4.5	4.2	4	4.8	5.8

SOURCE: Pennsylvania Department of Labor and Industry, Center for Workforce Information and Analysis

TOTAL PERSONAL INCOME AND PER CAPITA PERSONAL INCOME PENNSYLVANIA COMPARED TO THE UNITED STATES

TABLE 9

For the Last Ten Calendar Years

COMMONWEALTH OF PENNSYLVANIA

Calendar Year	TOTAL PERSONAL INCOME (Millions of Dollars)			PER CAPITA PERSONAL INCOME (Dollars)		
	United States	Pennsylvania	%	United States	Pennsylvania	%
1993	$ 5,469,485	$ 260,109	4.80	$ 21,220	$ 21,635	102.00
1994	5,741,050	269,002	4.70	22,056	22,343	101.30
1995	6,192,235	285,923	4.60	23,562	23,738	100.70
1996	6,538,103	299,001	4.60	24,270	24,467	100.81
1997	6,928,545	313,457	4.50	25,412	25,635	100.88
1998	7,418,497	330,733	4.46	26,893	27,008	100.43
1999	7,779,511	342,357	4.40	27,880	27,916	100.13
2000	8,398,771	365,626	4.35	29,776	29,759	100.00
2001	8,677,490	378,350	4.36	30,413	30,752	101.11
2002	8,922,320	391,354	4.39	30,941	31,727	102.54

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis

THIRTY LARGEST NONGOVERNMENTAL EMPLOYERS TABLE 10

For the Calendar Year 2002

COMMONWEALTH OF PENNSYLVANIA

EMPLOYER	RANK
Wal-Mart Store, Inc	1
University of Pennsylvania	2
Pennsylvania State University	3
US Airways, Inc.	4
United Parcel Services, Inc.	5
KMART of Pennsylvania	6
Giant Food Stores	7
University of Pittsburgh	8
Sears Roebuck & Co	9
Weis Markets	10
Merck & Co	11
Verizon of PA	12
May Department Stores Co	13
PNC Bank, NA	14
Aramark Services Mgmt	15
UPMC – Presbyterian Mgmt	16
Giant Eagle Inc.	17
JC Penny Company	18
Vanguard Group Inc.	19
Tenet Health System - Philadelphia	20
Hershey Foods Inc	21
Acme Markets Inc.	22
Highmark Blue Cross/Blue Shield	23
Mellon Bank, NA.	24
The Home Depot USA Inc.	25
Boscov's Department Store	26
Eckard Corporation	27
Southeastern PA Transportation	28
The Gap Inc	29
Temple University	30

SOURCE: Pennsylvania Department of Labor and Industry, Office of Employment Security

LIST OF MAJOR CORPORATIONS THAT MAINTAIN THEIR CORPORATE HEADQUARTERS IN THE COMMONWEALTH

TABLE 11

COMMONWEALTH OF PENNSYLVANIA

Adelphia Communications Corp.
Agere Systems, Inc.
Air Products and Chemicals, Inc.
Airgas, Inc.
Alcoa, Inc.
Allegheny Technologies, Inc.
American Eagle Outfitters, Inc.
Amerisource Bergen Corp.
AMETEK Inc.
Amkor Technology, Inc.
ARAMARK Corporation
Blair Corporation
Black Box Corporation
Bon-Ton Stores Inc.
Brandywine Realty Trust
Cable Design Technology Corporation
Carpenter Technology Corporation
CDI Corporation
Charming Shoppes, Inc.
Comcast Corporation
DENTSPLY International, Inc.
Dick's Sporting Goods, Inc.
Electronic Boutique Holding Corporation
Federated Investors, Inc.
FMC Corporation
Foamex International, Inc.
Genesis Health Services, Inc.
H. J. Heinz Company
Harsco Corporation
Hershey Foods Corporation
IKON Office Solutions
JLG Industries, Inc.
Jones Apparel Group, Inc.
Kennametal, Inc.
Mine Safety Appliances Co.
Mylan Laboratories, Inc.
NCO Group, Inc.
P. H. Glatfelter Company
Pegasus Communications Corp.
Penn National Gaming Inc.
Pep Boys – Manny, Moe and Jack
PPG Industries, Inc.
Rent-Way Inc.
Rite Aid Corporation
Rohm and Haas Company
Safeguard Scientifics, Inc.
SEI Investments Co.
Select Medical Corp.
SPS Technologies, Inc.
SunGard Data Systems, Inc.
Sunoco, Inc.
Teleflex, Inc.
Toll Brothers, Inc.
Triumph Group Inc.
UNISYS Corporation
United States Steel
Universal Health Services, Inc.
Vishay Intertechnology, Inc.
Wabtech Corp.
Weis Markets, Inc.
WESCO International Inc.
York International Corporation

SOURCE: *Ward's Business Directory* 2002

MISCELLANEOUS STATISTICS

TABLE 12

June 30, 2003

COMMONWEALTH OF PENNSYLVANIA

Date of Ratification of U.S. Constitution	December 12, 1787
Form of Government	Legislative-Executive-Judicial
Miles of State Highway	39,905
Land Area – in square miles	44,888
State Police Protection:	
Number of Stations	90
Number of State Police	4,120
Higher Education (Universities, Colleges and Community Colleges):	
Number of campuses in state	239
Number of educators	23940
Number of students	661,431
Recreation:	
Number of State Parks	116
Area of State Parks	290,128
Area of State Forests	2,120,166

SOURCE: Pennsylvania Department of Transportation, Bureau of Strategic Planning
Pennsylvania State Police, Bureau of Research and Development
Pennsylvania Department of Education, Division of Data Services
Pennsylvania Department of Conservation and Natural Resources, Bureau of Forestry
*as of June 2002